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Head of Legal and Democratic Services

MEETING: AUDIT AND GOVERNANCE COMMITTEE

VENUE: COUNCIL CHAMBER, WALLFIELDS, HERTFORD

DATE: WEDNESDAY 23 NOVEMBER 2016

TIME : 7.00 PM

PLEASE NOTE TIME AND VENUE

MEMBERS OF THE COMMITTEE

Councillor M Pope (Chairman)
Councillors D Abbott, A Alder, P Boylan, B Deering (Vice-Chairman),
I Devonshire, P Kenealy, W Mortimer, S Stainsby and C Woodward

CONTACT OFFICER: LORRAINE BLACKBURN

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DISCLOSABLE PECUNIARY INTERESTS

- 1. A Member, present at a meeting of the Authority, or any committee, sub-committee, joint committee or joint sub-committee of the Authority, with a Disclosable Pecuniary Interest (DPI) in any matter to be considered or being considered at a meeting:
 - must not participate in any discussion of the matter at the meeting;
 - must not participate in any vote taken on the matter at the meeting;
 - must disclose the interest to the meeting, whether registered or not, subject to the provisions of section 32 of the Localism Act 2011;
 - if the interest is not registered and is not the subject of a pending notification, must notify the Monitoring Officer of the interest within 28 days;
 - must leave the room while any discussion or voting takes place.
- 2. A DPI is an interest of a Member or their partner (which means spouse or civil partner, a person with whom they are living as husband or wife, or a person with whom they are living as if they were civil partners) within the descriptions as defined in the Localism Act 2011.
- 3. The Authority may grant a Member dispensation, but only in limited circumstances, to enable him/her to participate and vote on a matter in which they have a DPI.
- 4. It is a criminal offence to:
 - fail to disclose a disclosable pecuniary interest at a meeting if it is not on the register;
 - fail to notify the Monitoring Officer, within 28 days, of a DPI that is not on the register that a Member disclosed to a meeting;
 - participate in any discussion or vote on a matter in which a Member has a DPI;
 - knowingly or recklessly provide information that is false or misleading in notifying the Monitoring Officer of a DPI or in disclosing such interest to a meeting.

(Note: The criminal penalties available to a court are to impose a

fine not exceeding level 5 on the standard scale and disqualification from being a councillor for up to 5 years.)

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If you think a meeting you plan to attend could be very busy, you can check if the extra space will be available by emailing committee.services@eastherts.gov.uk or calling the Council on 01279 655261 and asking to speak to Democratic Services.

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AGENDA

- 1. <u>Training item Business Continuity Update</u>
- 2. Apologies

To receive apologies for absence.

3. <u>Minutes</u> (Pages 7 - 16)

To confirm the Minutes of the meeting held on 21 September 2016.

4. Declarations of Interest

To receive any Members' Declarations of Interest

- 5. External Auditor Appointment (Pages 17 30)
- 6. <u>Treasury Management Strategy 2016/17 Mid Year Review</u> (Pages 31 52)
- 7. External Audit 2015/16 Annual Audit Letter (Pages 53 78)
- 8. Council's response to 2015/16 Annual Audit letter (Pages 79 82)
- 9. External Audit Planning Audit Fees for 2016/17 (Pages 83 86)
- 10. <u>Update on implementation of Annual Governance Statement Action Plan</u> (Pages 87 92)
- 11. Risk Management Strategy Update (Pages 93 136)
- 12. Risk Management Monitoring Report 1 July 2016 to 30 September 2016 (Pages 137 148)
- 13. Complaints Lodged with the Monitoring Officer

Verbal update from the Monitoring Officer.

14. Audit and Governance Work Programme (Pages 149 - 154)

15. <u>Urgent Business</u>

To consider such other business as, in the opinion of the Chairman of the meeting is of sufficient urgency to warrant consideration and is not likely to involve the disclosure of exempt information



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MINUTES OF A MEETING OF THE

AUDIT AND GOVERNANCE COMMITTEE

HELD IN THE COUNCIL CHAMBER,

WALLFIELDS, HERTFORD ON

WEDNESDAY 21 SEPTEMBER 2016, AT

7.00 PM

PRESENT: Councillor M Pope (Chairman)

Councillors B Deering, I Devonshire,

P Kenealy, C Snowdon and S Stainsby

ALSO PRESENT:

Councillors G Williamson

OFFICERS IN ATTENDANCE:

Lorraine Blackburn - Democratic

Services Officer

Victoria Clothier - Legal Services

Manager

Philip Gregory - Head of

Strategic Finance and Property

Kevin Williams - Acting Head of

Legal and Democratic Services

Liz Watts - Chief Executive

ALSO IN ATTENDANCE:

Alan Cooper - SIAS

Debbie Hanson - Ernst Young LLP

Nick Jennings - SAFS

310 TRAINING ITEM - LOCAL GOVERNMENT AUDIT UPDATE

A presentation was given by the External Auditor on a Local Government Audit Update. The briefing looked at:

- the impact of the UK's decision to leave the European Union;
- changes to off-payroll working;
- potential review of process for reporting election results;
- the need to minimise revenue spend on debt servicing and maximise revenue spend on assets;
- changes to the timescales for the preparation of accounts and auditing and the potential challenges of earlier deadlines.

The Chairman referred to Brexit and the impact this might have on government funding. He also referred to the Council's assets and volatility in relation to its pension liability.

The External Auditor referred to the risks that some Councils could face in relation to Brexit and funding streams. She stated that Revenue Support Grant was continually declining and the New Homes Bonus could disappear. She also spoke of the challenges Councils faced in preparing their Medium Term Financial Plans (MTFPs) in the face of uncertainty in relation to grant funding. The External Auditor commented that to mitigate these uncertainties, many Councils were adopting a more commercial approach to generate funding. The External Auditor confirmed that volatility would affect the Council's assets and movements and also in terms of pension figures.

The changing timescales for the production of the Council's accounts was debated at length. The Head of Strategic Finance and Property commented that they were working closely with the External Auditor to ensure that information was submitted in a timely manner. He reminded Members that the tri-annual review of pensions was being undertaken and that confirmation of this review was awaited from Hertfordshire County Council. He stated that a report on the Pension Fund would be presented to Corporate Business Scrutiny Committee in October 2016.

The Chairman, on behalf of Members, thanked the External Auditor for the presentation.

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RESOLVED – that the presentation be received.

311 APOLOGIES

Apologies for absence were submitted from Councillors D Abbott, A Alder and C Woodward.

312 <u>MINUTES - 15 JUNE 2016</u>

RESOLVED – that the Minutes of the meeting held on 15 June 2016 be confirmed as a correct record and signed by the Chairman.

313 CHAIRMAN'S ANNOUNCEMENTS

The Chairman stated that, with the consent of Members, he proposed to move agenda items 14 (Verbal Update – Complaints lodged with the Monitoring Officer) and 16 (Review of the Council's Constitution) to be considered after agenda item 4 (Declarations of Interest). This was supported.

314 COMPLAINTS LODGED WITH THE MONITORING OFFICER – VERBAL UPDATE

The Acting Head of Legal and Democratic Services explained the current procedure in terms of the complaints process and those submitted formally to the Monitoring Officer. He referred to the issue of prejudice which could arise if the current process was not followed.

The Acting Head explained that an investigation was complete in relation to one complaint, but that it was not at the point at which a public hearing should be arranged and that he was awaiting further information. The Acting Head explained that as the Monitoring Officer, he needed to ensure that any complaints were dealt with in confidence and of the need to ensure that the issue of prejudice did not arise. He reiterated that current protocols for dealing with complaints needed revision to remove any possibility of prejudice being alleged.

Members noted the update.

RESOLVED – that the update be noted.

315 REVIEW OF THE COUNCIL'S CONSTITUTION

At the request of the Chief Executive and with the consent of the Chairman, this matter had been added to the agenda as an urgent item of business because it was considered of sufficient urgency to warrant consideration and in order to facilitate the business of the Council.

The Chief Executive submitted a report seeking approval to carry out a significant review of the Constitution and the establishment of a Constitution Working Group (CWG) to facilitate this review. The new Legal Services Manager introduced the report.

The Committee supported the recommendations as now detailed.

<u>RESOLVED</u> – that (A) a Constitution Working Group (CWG) to carry out a review of the Council's Constitution be established;

- (B) the Leader of the Council, in consultation with the Chairman of Audit and Governance Committee, nominate three Members of the CWG from Members of this Committee and one Member from Corporate Business Scrutiny Committee;
- (C) the CWG submit an interim review of its recommendations to Audit and Governance Committee on 25 January 2017 with a final report on 22 March 2017 for approval by Council on 10 May 2017; and
- (D) the Legal Services Manager be appointed to act as the Lead Officer in relation to the CWG.

316 STATEMENT OF ACCOUNTS 2015/16

The Executive Member for Finance and Support Services submitted a report setting out the background to the 2015/16 Statement of Accounts and the Council's overall financial

position in terms of the Balance Sheet and revenue activity in terms of the General Fund and the Collection Funds. The Head of Strategic Finance and Property introduced the report and assured Members that the report would be carefully reviewed before publication, to ensure accuracy of content.

The report was debated at length when a number of queries were raised and responded to. Of particular concern was the issue of the Council's liability with regard to pensions. The Head of Strategic Finance and Property reminded Members that this matter was under a tri-annual review by Hertfordshire County Council and would be considered further by Corporate Business Scrutiny Committee in October 2016. He stated that an HCC Pensions Adviser would be in attendance at that meeting to respond to Members' questions.

The Committee supported the recommendations as now detailed.

RESOLVED – that (A) the Council's Statement of Accounts for the financial year 2015/16 be approved and authorised by the Chairman of the Audit and Governance Committee following the conclusion of the meeting; and

(B) the letter of representation be approved for signature by the Chairman of Audit and Governance Committee and the Head of Strategic Finance and Property.

317 EXTERNAL AUDIT - AUDIT RESULTS REPORT

The External Auditor submitted a report setting out the results and conclusions on the work carried out under its statutory obligations. The External Auditor explained that, although work was still ongoing in relation to Value for Money control arrangements and Whole of Government Accounts, they would be issuing an unqualified positive opinion. She drew Members' attention to Appendix 'C' of their report in relation to outstanding matters and in relation to the External Auditor's overall conclusions in relation to Value for Money. The Head of Strategic Finance and Property Services assured Members

that outstanding information would be provided to the External Auditors.

The Committee noted the report as detailed.

RESOLVED – that the report be noted.

318 RISK MANAGEMENT MONITORING REPORT (APRIL TO JUNE 2016)

The Executive Member for Finance and Support Services submitted a report on the action taken to mitigate and control strategic risks during the period April to June 2016.

In response to a query from Councillor B Deering, the Head of Strategic Finance and Property explained what the Council was doing to mitigate risk in relation to 16SR 1b (Business Rate Income). The Chief Executive explained the challenges in terms of encouraging economic development and Members' anxiety in relation to growth around the District as evidenced in terms of the District Plan.

In response to a query from the Chairman regarding cyber - crime, the Officer from the Shared Anti-Fraud Service (SAFS) provided an overview on planned activity in relation to combatting this form of crime.

Councillor B Deering referred to emergency planning procedures and queried what plans the Council had in place to ensure continuity of business if something happened to the Wallfields building. The Chief Executive referred to IT support and confirmed that business could continue from one of a number of venues including Charringtons House in Bishop's Stortford, and the Buntingford Depot, adding that most people could work from home.

The Committee approved the report, as now detailed.

RESOLVED – that the report be approved.

319 TREASURY MANAGEMENT STRATEGY – 2015/16 OUTTURN

The Executive Member for Finance and Support Services submitted a report which reviewed the Council's treasury management activities for 2015/16 including the prudential indicators and identified the associated impact on the 2016/17 treasury management strategy. The Head of Strategic Finance and Property provided an overview of the report.

The Committee approved the report, as now detailed.

<u>RESOLVED</u> – that the 2015/16 treasury management activity and prudential indicators, be approved.

320 SHARED INTERNAL AUDIT SERVICE - AUDIT PLAN UPDATE

The Shared Internal Audit Service (SIAS) submitted a report detailing the progress made by SIAS in delivering the Council's Annual Audit Plan for 2016/17 (as at 2 September 2016). The report proposed amendments to the approved 2016/17 Audit Plan and detailed the status of previously agreed high priority audit recommendations. The report provided an update on performance management information. The SIAS Officer provided an overview of the report.

In response to a query from Councillor P Kenealy regarding the absence of the Business Continuity Plan, the Chief Executive explained that the recent restructure had impacted on the plan moving forward, but that one of the two Directors now had responsibility for this. Members supported the suggestion that this issue be added to the Committee's work programme and that the Director be invited to the next meeting to provide a detailed update.

<u>RESOLVED</u> – that (A) the Internal Audit Progress report as now submitted be noted;

- (B) high priority recommendations already implemented, be removed from the plan; and
- (C) the Business Continuity Plan be added to the work programme for the next meeting and the

responsible Director be invited to provide an update.

321 SHARED ANTI-FRAUD SERVICE (SAFS) - POSITION STATEMENT

The Shared Anti-Fraud Service (SAFS) submitted a report in respect of the year end data for 2015/16; the progress made against the Council's published Anti-Fraud Action Plan adopted in March 2016; and, the anti-fraud activity undertaken to protect the Council. The SAFS Officer referred to the availability of two published documents, i.e., the SAFS/EHDC Anti-Fraud Action Plan 2016/17 and a Summary of Progress against Plan 2016/17.

The Committee noted the report, as now detailed.

<u>RESOLVED</u> – that (A) the Shared Anti-Fraud Service year-end data for 2015/16 be noted;

- (B) the progress of the Shared Anti-Fraud Service in delivering the Council's Anti-Fraud Action Plan 2016/17 be noted; and
- (C) the anti-fraud activity undertaken to protect the Council be noted.

322 ANNUAL SHARED INTERNAL AUDIT SERVICE - BOARD REPORT 2015-16

The Shared Internal Audit Service (SIAS) submitted the annual report of its activity of the service for the financial year 2015/16. The Officer from SIAS provided a summary of the key issues. In response to a query from the Chairman regarding increased consultancy costs, the SIAS Officers explained why these had occurred.

The Committee noted the report, as now detailed.

RESOLVED – that the report be noted.

323 2015/16 ANNUAL GOVERNANCE STATEMENT AND

AG AG

2016/17 ACTION PLAN

The Leader of the Council submitted a report on the 2015/16 Annual Governance Statement and the 2016/17 Annual Governance Statement Action Plan, the detail of which was set out in the report.

The Committee approved the report, as now detailed.

<u>RESOLVED</u> – that the 2015/16 Annual Governance Statement and the 2016/17 Action Plan be approved.

324 AUDIT AND GOVERNANCE WORK PROGRAMME

The Head of Strategic Finance and Property Services submitted a report detailing the proposed work programme for Audit and Governance Committee.

The Chairman referred to various issues and sought Members' thoughts on matters which could be included in the work programme. Members suggested that the work programme be amended to include the following:

- Pension training
- Business Continuity Update
- Fraud

Members supported the revised work programme for Audit and Governance Committee, as now amended.

<u>RESOLVED</u> – that the work programme, as now amended, be approved.

The meeting closed at 9.48 pm

Chairman	
Date	



Agenda Item 5

EAST HERTS COUNCIL

AUDIT AND GOVERNANCE COMMITTEE - 23 NOVEMBER 2016

REPORT BY EXECUTIVE MEMBER FOR FINANCE AND SUPPORT SERVICES

APPOINTMENT OF EXTERNAL AUDITORS

WARD(S) AFFECTED:	ALL	

Purpose/Summary of Report

 This report sets out the options available to the Council to appoint external auditors from 2018/19 and process for achieving successful procurement of external audit services.

	MMENDATIONS FOR THE AUDIT AND GOVERNANCE MITTEE: That:
(A)	the Committee recommend to Council via the Executive that this Council "opts in" to the appointing person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of External Auditors.

1.0 <u>Background</u>

1.1 The Local Audit & Accountability Act 2014 ('the Act') abolished the Audit Commission, and required local authorities to appoint their own external auditors for the audit of the 2017/18 accounts by 31 December 2017.

1.2 Report

1.3 As part of closing the Audit Commission the Government novated external audit contracts to Public Sector Audit Appointments (PSAA) on 1 April 2015. The contracts were due to expire following conclusion of the audits of the 2016/17 accounts, but could be extended for a period of up to three years by PSAA, subject to approval from the Department for Communities and Local Government (DCLG).

- 1.4 In October 2015 the Secretary of State confirmed that the transitional provisions would be amended to allow an extension of the contracts for a period of one year.
- 1.5 This means that for the audit of the 2018/19 accounts it is necessary for authorities to either undertake their own procurement to appoint an external auditor or to "opt in" to the appointed person regime.
- 2 There are four options for local authorities to appoint auditors:
- 2.1 By establishing their own auditor panel (which may be an existing committee or sub-committee of the authority);
- 2.2 By jointly establishing an auditor panel with other authorities;
- 2.3 By using the services of an auditor panel established by another authority; or
- 2.4 By delegating appointment to a sector led body.
- 2.5 Establishing an auditor panel carries a number of requirements which must be fulfilled. The regulations require that panels consist of a minimum of three members, with a majority of members independent and an independent chair.
- 2.6 To be appointed as an independent member to a panel, the vacancy must have been advertised and an application submitted. The panel members must also be able to offer relevant general knowledge and experience. The CIPFA guidance suggests local authority finance, accountancy, audit process and regulation, and the role and responsibility of auditors as specifically relevant areas of experience.
- 3.0 Independence is defined as follows by The Local Audit [Auditor Panel Independence] Regulations 2014:
 - the panel member has not been a member or officer of the authority within the period of 5 years ending with that time (the "last 5 years"),
 - the panel member has not, within the last 5 years, been a member or officer of another relevant authority that is (at the given time) connected with the authority or with which (at the given time) the authority is connected,
 - the panel member has not, within the last 5 years, been an officer or employee of an entity, other than a relevant

- authority, that is (at the given time) connected with the authority,
- the panel member is not a relative or close friend of—
 a member or officer of the authority,
 - a member or officer of another relevant authority that is connected with the authority or with which the authority is connected, or
 - an officer or employee of an entity, other than a relevant authority, that is connected with the authority,
- the panel member is not the authority's elected mayor,
- neither the panel member, nor any body in which the panel member has a beneficial interest, has entered into a contract with the authority—
- under which goods or services are to be provided or works are to be executed, and which has not been fully discharged,
- the panel member is not a current or prospective auditor of the authority, and
- the panel member has not, within the last 5 years, been an employee of a person who is (at the given time) a current or prospective auditor of the authority,
 - a partner in a firm that is (at the given time) a current or prospective auditor of the authority, or
 - a director of a body corporate that is (at the given time) a current or prospective auditor of the authority."
- 3.1 The independence requirements suggest that it is unlikely that any authority would have an appropriate committee or subcommittee that could act as a panel which rules out option 1 described above.
- 3.2 Options 2.2 and 2.3 propose the use of an auditor panel that is jointly set up or that of another authority. These options would share the administration of creating an auditor panel, although no authority has yet come forward to either offer to create a joint

- panel or make available the use of an established audit panel.
- 3.3 The first three options are therefore not recommended as they will require a far more resource intensive process and, without the bulk buying power of the sector led procurement, would be likely to result in a more costly service.
- The consensus amongst most local authorities is to pursue option 4 and to delegate appointment to a sector led body.
- In July 2016 PSAA were specified by the Secretary of State as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. The appointing person is also referred to as the sector led body and PSAA has wide support across most of local government. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission and is a company owned by the Local Government Association's Improvement and Development Agency (IDeA).
- 3.5 The main advantages of using PSAA to procure external auditors are:
 - Assure timely auditor appointments
 - Manage independence of auditors
 - Secure highly competitive prices
 - Save on procurement costs
 - Save time and effort needed on auditor panels
 - Focus on audit quality
 - Operate on a not for profit basis and distribute any surplus funds to scheme members.
- In order to opt-in to the appointing person arrangement offered by PSAA a decision must be reached before 9 March 2017. An invitation to opt in was issued in October 2016 (please see **Essential Reference Paper 'B'**). The relevant regulations require that the decision to accept the invitation and to opt in needs to be made by the members of the authority meeting as a whole, i.e. Council.

3.7 It is likely that a sector wide procurement conducted by PSAA will produce better outcomes for the Council than any procurement we undertook by ourselves or with a limited number of partners. Use of the PSAA will also be less resource intensive than establishing an auditor panel and conducting our own procurement. It is this option that is recommended by officers.

4.0 <u>Implications/Consultations</u>

4.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper**A.

Background Papers - None

Contact Member: Councillor Geoffrey Williamson, Executive Member

for Finance and Support Services.

geoffrey.williamson@eastherts.gov.uk

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Report Author: Philip Gregory,

Head of Strategic Finance & Property,

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ESSENTIAL REFERENCE PAPER 'A'

IMPLICATIONS/CONSULTATIONS

Contribution to the Council's Corporate	Priority 1 – Improve the health and wellbeing of our communities
Priorities/ Objectives	Priority 2 – Enhance the quality of people's lives
(delete as appropriate):	Priority 3 – Enable a flourishing local economy
	The report provides a response to the Annual Audit Letter arising from the external audit of 2015/16 financial statements and value for money. This contributes to all the Corporate Priorities.
Consultation:	None
Legal:	No specific implications arise from this report.
Financial:	There are no direct financial implications arising from the report.
Human Resource:	No specific implications arise from this report
Risk Management:	This report documents significant matters related to the ongoing governance of the council.
Health and wellbeing – issues and impacts:	No specific implications arise from this report.



Email: appointingperson@psaa.co.uk



27 October 2016

Liz Watts
East Hertfordshire District Council
Wallfields
Pegs Lane Hertford
Hertfordshire SG13 8EQ

Copied to: Adele Taylor, Director of Finance, East Hertfordshire District Council

Kevin Williams, Head of Democratic and Legal Services, East Hertfordshire

District Council

Dear Ms Watts

Invitation to opt into the national scheme for auditor appointments

As you know the external auditor for the audit of the accounts for 2018/19 has to be appointed before the end of 2017. That may seem a long way away, but as there is now a choice about how to make that appointment, a decision on your authority's approach will be needed soon.

We are pleased that the Secretary of State has expressed his confidence in us by giving us the role of appointing local auditors under a national scheme. This is one choice open to your authority. We issued a prospectus about the scheme in July 2016, available to download on the appointing person page of our website, with other information you may find helpful.

The timetable we have outlined for appointing auditors under the scheme means we now need to issue a formal invitation to opt into these arrangements. The covering email provides the formal invitation, along with a form of acceptance of our invitation for you to use if your authority decides to join the national scheme. We believe the case for doing so is compelling. To help with your decision we have prepared the additional information attached to this letter.

I need to highlight two things:

- we need to receive your formal acceptance of this invitation by 9 March 2017; and
- the relevant regulations require that, except for a body that is a corporation sole (a police and crime commissioner), the decision to accept the invitation and to opt in needs to be made by the members of the authority meeting as a whole. We appreciate this will need to be built into your decision making timetable.

If you have any other questions not covered by our information, do not hesitate to contact us by email at appointingperson@psaa.co.uk.

Yours sincerely

Jon Hayes, Chief Officer

Appointing an external auditor

Information on the national scheme

Public Sector Audit Appointments Limited (PSAA)

We are a not-for-profit company established by the Local Government Association (LGA). We administer the current audit contracts, let by the Audit Commission before it closed.

We have the support of the LGA, which has worked to secure the option for principal local government and police bodies to appoint auditors through a dedicated sector-led national procurement body. We have established an advisory panel, drawn from representative groups of local government and police bodies, to give access to your views on the design and operation of the scheme.

The national scheme for appointing local auditors

We have been specified by the Secretary of State for Communities and Local Government as the appointing person for principal local government bodies. This means that we will make auditor appointments to principal local government bodies that choose to opt into the national appointment arrangements we will operate for audits of the accounts from 2018/19. These arrangements are sometimes described as the 'sector-led body' option, and our thinking for this scheme was set out in a prospectus circulated to you in July. The prospectus is available on the appointing person page of our website.

We will appoint an auditor for all opted-in authorities for each of the five financial years beginning from 1 April 2018, unless the Secretary of State chooses to terminate our role as the appointing person beforehand. He or she may only do so after first consulting opted-in authorities and the LGA.

What the appointing person scheme will offer

We are committed to making sure the national scheme will be an excellent option for auditor appointments for you.

We intend to run the scheme in a way that will save time and resources for local government bodies. We think that a collective procurement, which we will carry out on behalf of all opted-in authorities, will enable us to secure the best prices, keeping the cost of audit as low as possible for the bodies who choose to opt in, without compromising on audit quality.

Our current role means we have a unique experience and understanding of auditor procurement and the local public audit market.

Using the scheme will avoid the need for you to:

- establish an audit panel with independent members;
- manage your own auditor procurement and cover its costs;
- monitor the independence of your appointed auditor for the duration of the appointment;
- deal with the replacement of any auditor if required; and
- manage the contract with your auditor.

Our scheme will endeavour to appoint the same auditors to other opted-in bodies that are involved in formal collaboration or joint working initiatives, if you consider that a common auditor will enhance efficiency and value for money.

We will also try to be flexible about changing your auditor during the five-year appointing period if there is good reason, for example where new joint working arrangements are put in place.

Securing a high level of acceptances to the opt-in invitation will provide the best opportunity for us to achieve the most competitive prices from audit firms. The LGA has previously sought expressions of interest in the appointing person arrangements, and received positive responses from over 270 relevant authorities. We ultimately hope to achieve participation from the vast majority of eligible authorities.

High quality audits

The Local Audit and Accountability Act 2014 provides that firms must be registered as local public auditors with one of the chartered accountancy institutes acting in the capacity of a Recognised Supervisory Body (RSB). The quality of registered firms' work will be subject to scrutiny by both the RSB and the Financial Reporting Council (FRC), under arrangements set out in the Act.

We will:

- only contract with audit firms that have a proven track record in undertaking public audit work:
- include obligations in relation to maintaining and continuously improving quality in our contract terms and in the quality criteria in our tender evaluation;
- ensure that firms maintain the appropriate registration and will liaise closely with RSBs and the FRC to ensure that any quality concerns are detected at an early stage; and
- take a close interest in your feedback and in the rigour and effectiveness of firms' own quality assurance arrangements.

We will also liaise with the National Audit Office to help ensure that guidance to auditors is updated as necessary.

Procurement strategy

In developing our procurement strategy for the contracts with audit firms, we will have input from the advisory panel we have established. The panel will assist PSAA in developing arrangements for the national scheme, provide feedback to us on proposals as they develop, and helping us maintain effective channels of communication. We think it is particularly important to understand your preferences and priorities, to ensure we develop a strategy that reflects your needs within the constraints set out in legislation and in professional requirements.

In order to secure the best prices we are minded to let audit contracts:

- for 5 years;
- in 2 large contract areas nationally, with 3 or 4 contract lots per area, depending on the number of bodies that opt in; and
- to a number of firms in each contract area to help us manage independence issues.

The value of each contract will depend on the prices bid, with the firms offering the best value being awarded larger amounts of work. By having contracts with a number of firms, we will be able to manage issues of independence and avoid dominance of the market by one or two firms. Limiting the national volume of work available to any one firm will encourage competition and ensure the plurality of provision.

Auditor appointments and independence

Auditors must be independent of the bodies they audit, to enable them to carry out their work with objectivity and credibility, and in a way that commands public confidence.

We plan to take great care to ensure that every auditor appointment passes this test. We will also monitor significant proposals for auditors to carry out consultancy or other non-audit work, to protect the independence of auditor appointments.

We will consult you on the appointment of your auditor, most likely from September 2017. To make the most effective allocation of appointments, it will help us to know about:

- any potential constraints on the appointment of your auditor because of a lack of independence, for example as a result of consultancy work awarded to a particular firm;
- any joint working or collaboration arrangements that you think should influence the appointment; and
- other local factors you think are relevant to making the appointment.

We will ask you for this information after you have opted in.

Auditor appointments for the audit of the accounts of the 2018/19 financial year must be made by 31 December 2017.

Fee scales

We will ensure that fee levels are carefully managed by securing competitive prices from firms and by minimising our own costs. Any surplus funds will be returned to scheme members under our articles of association and our memorandum of understanding with the Department for Communities and Local Government and the LGA.

Our costs for setting up and managing the scheme will need to be covered by audit fees. We expect our annual operating costs will be lower than our current costs because we expect to employ a smaller team to manage the scheme. We are intending to fund an element of the costs of establishing the scheme, including the costs of procuring audit contracts, from local government's share of our current deferred income. We think this is appropriate because the new scheme will be available to all relevant principal local government bodies.

PSAA will pool scheme costs and charge fees to audited bodies in accordance with a fair scale of fees which has regard to size, complexity and audit risk, most likely as evidenced by audit fees for 2016/17. Pooling means that everyone in the scheme will benefit from the most competitive prices. Fees will reflect the number of scheme participants – the greater the level of participation, the better the value represented by our scale fees.

Scale fees will be determined by the prices achieved in the auditor procurement that PSAA will need to undertake during the early part of 2017. Contracts are likely to be awarded at the end of June 2017, and at this point the overall cost and therefore the level of fees required will be clear. We expect to consult on the proposed scale of fees in autumn 2017 and to publish the fees applicable for 2018/19 in March 2018.

Opting in

The closing date for opting in is 9 March 2017. We have allowed more than the minimum eight week notice period required, because the formal approval process for most eligible bodies, except police and crime commissioners, is a decision made by the members of an authority meeting as a whole.

We will confirm receipt of all opt-in notices. A full list of authorities who opt in will be published on our website. Once we have received an opt-in notice, we will write to you to request information on any joint working arrangements relevant to your auditor appointment, and any potential independence matters that would prevent us appointing a particular firm.

If you decide not to accept the invitation to opt in by the closing date, you may subsequently make a request to opt in, but only after 1 April 2018. The earliest an auditor appointment can be made for authorities that opt in after the closing date is therefore for the audit of the accounts for 2019/20. We are required to consider such requests, and agree to them unless there are reasonable grounds for their refusal.

Timetable

In summary, we expect the timetable for the new arrangements to be:

Invitation to opt in issued
 27 October 2016

Closing date for receipt of notices to opt in
 9 March 2017

Contract notice published
 20 February 2017

Award audit contracts
 By end of June 2017

Consult on and make auditor appointments
 By end of December 2017

Consult on and publish scale fees
 By end of March 2018

Enquiries

We publish frequently asked questions on our <u>website</u>. We are keen to receive feedback from local bodies on our plans. Please email your feedback or questions to: appointingperson@psaa.co.uk.

If you would like to discuss a particular issue with us, please send an email to the above address, and we will make arrangements either to telephone or meet you.



Agenda Item 6

EAST HERTS COUNCIL

AUDIT AND GOVERNANCE COMMITTEE - 23 NOVEMBER 2016

REPORT BY EXECUTIVE MEMBER FOR FINANCE AND SUPPORT SERVICES

TREASURY MANAGEMENT MID-YEAR REVIEW 2016-17

WARDS AFFECTED: NON SPECIFIC

Purpose/Summary of Report

 The report reviews the Council's treasury management activities for the first 6 months of 2016/17 financial year, including the prudential indicators.

	OMMENDATION FOR THE AUDIT AND GOVERNANCE IMITTEE:
That	:
(A)	the Treasury Management activity and prudential indicators for the first 6 months of the 2016/17 financial year be approved.

1 <u>Background</u>

- 1.1 Treasury management is defined as: 'The management of the Council's investments and cash flows, its banking arrangements, money market and capital transactions; the effective control of the risks associated with these activities; and the pursuit of optimum returns consistent with the Council's risk management policy for treasury management.'
- 1.2 This activity is supported by the council's appointed independent advisors Capita Asset Services.
- 1.3 The Council is required by regulations under the Local Government Act 2003 to produce a treasury management mid-year review of activities and prudential and treasury indicators for 2016/17.
- 1.4 This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
- 1.5 The Council is required by the CIPFA Prudential Code to approve a

treasury management mid-year review describing the activity compared to the strategy.

- 2 Report
- 2.1 Please refer to the Treasury Management Mid-Year Review, **Essential Reference Paper 'B':** Treasury Management Mid-Year Review 2016-17.
- 3.0 Implications/Consultations
- 3.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper** 'A'.

Background Papers

CIPFA Code of Practice on Treasury Management (2011)

CIPFA Prudential Code for Capital Finance in Local Authorities (2011)

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ESSENTIAL REFERENCE PAPER 'A'

IMPLICATIONS/CONSULTATIONS

0 () (
Contribution to	Priority 1 – Improve the health and wellbeing of our
the Council's	communities
Corporate	
Priorities/	Priority 2 – Enhance the quality of people's lives
Objectives	
(delete as	Priority 3 – Enable a flourishing local economy
appropriate):	
Consultation:	Not Applicable
Legal:	The CIPFA (Chartered Institute of Public Finance and
	Accountancy) Code of Practice for Treasury
	Management recommends that members be updated on
	treasury management activities regularly (Treasury
	Management Strategy Statement, annual and midyear
	reports). This report therefore ensures this Council is
	implementing best practice in accordance with the Code.
	The report fulfils the following legislative requirements:
	Reporting of prudential Indicators in line with the
	requirements of the CIPFA Code of Practice.
	• Poporting to those charged with governance a mid
	Reporting to those charged with governance a mid- year treasury management report.
	year treasury management report.
Financial:	Within the body of the report.
	Nict AccPoolitie
Human	Not Applicable.
Resource:	
Risk	Within the body of the report.
Management:	
Health and	Not Applicable.
wellbeing –	
issues and	
impacts:	



East Herts District Council

Treasury Management Mid-Year Review

2016/17

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1 Background

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Accordingly, treasury management is defined as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2 Introduction

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2011) is adopted by this Council.

The primary requirements of the Code are as follows:

- 1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- 2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by the full council of an annual Treasury Management Strategy Statement including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Midyear Review Report and an Annual Report (stewardship report) covering activities during the previous year.
- 4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- 5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is Audit and Governance Committee:

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first part of the 2016/17 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure (prudential indicators);
- A review of the Council's investment portfolio for 2016/17;
- A review of the Council's borrowing strategy for 2016/17;
- A review of any debt rescheduling undertaken during 2016/17;
- A review of compliance with Treasury and Prudential Limits for 2016/17.

Key Changes to the Treasury and Capital Strategies

There have been no key changes to the Treasury and Capital Strategies.

3 Economics and interest rates

3.1 Economics update

UK GDP growth rates in 2013 of 2.2% and 2.9% in 2014 were strong but 2015 was disappointing at 1.8%, though it still remained one of the leading rates among the G7 countries. Growth improved in quarter 4 of 2015 from +0.4% to 0.7% but fell back to +0.4% (2.0% y/y) in quarter 1 of 2016 before bouncing back again to +0.7% (2.1% y/y) in quarter 2. During most of 2015, the economy had faced headwinds for exporters from the appreciation during the year of sterling against the Euro, and weak growth in the EU, China and emerging markets, plus the dampening effect of the Government's continuing austerity programme. The referendum vote for Brexit in June this year delivered an immediate shock, fall in confidence indicators and business surveys, pointing to an impending sharp slowdown in the economy. However, subsequent surveys have shown a sharp recovery in confidence and business surveys, though it is generally expected that although the economy will now avoid flat lining, growth will be weak through the second half of 2016 and in 2017.

The Bank of England Monetary Policy Committee (MPC) meeting on August 4th addressed this expected slowdown in growth by a package of measures including a cut in Bank Rate from 0.50% to 0.25%. The Inflation Report included an unchanged forecast for growth for 2016 of 2.0% but cut the forecast for 2017 from 2.3% to just 0.8%. The Governor of the Bank of England, Mark Carney, had warned that a vote for Brexit would be likely to cause a slowing in growth, particularly from a reduction in business investment, due to the uncertainty of whether the UK would have continuing full access, (i.e. without tariffs), to the EU single market. He also warned that the Bank could not do all the heavy lifting and suggested that the Government will need to help growth by increasing investment expenditure and possibly by using fiscal policy tools (taxation). The new Chancellor Phillip Hammond announced after the referendum result, that the target of achieving a budget surplus in 2020 will be eased in the Autumn Statement on November 23.

The Inflation Report also included a sharp rise in the forecast for inflation to around 2.4% in 2018 and 2019. CPI has started rising during 2016 as the falls in the price of oil and food twelve months ago fall out of the calculation during the year and, in addition, the post referendum 10% fall in the value of sterling on a trade weighted basis is likely to result in a 3% increase in CPI over a time period of 3-4 years. However, the MPC is expected to look thorough a one off upward blip from this devaluation of sterling in order to support economic growth, especially if pay increases continue to remain subdued and therefore pose little danger of stoking core inflationary price pressures within the UK economy.

The American economy had a patchy 2015 with sharp swings in the growth rate leaving the overall growth for the year at 2.4%. Quarter 1 of 2016 disappointed at +0.8% on an annualised basis while quarter 2 improved, but only to a lacklustre +1.4%. However, forward indicators are pointing towards a pickup in growth in the rest of 2016. The Federal Reserve embarked on its long anticipated first increase in rates at its December 2015 meeting. At that point, confidence was high that there would then be four more increases to come in 2016. Since then, more downbeat news on the international scene and then the Brexit vote, have caused a delay in the timing of the second increase which is now strongly expected in December this year.

In the Eurozone, the ECB commenced in March 2015 its massive €1.1 trillion programme of quantitative easing to buy high credit quality government and other debt of selected EZ countries at a rate of €60bn per month; this was intended to run initially to September 2016 but was extended to March 2017 at its December 2015 meeting. At its December and March meetings it progressively cut its deposit facility rate to reach -0.4% and its main refinancing rate from 0.05% to zero. At its March meeting, it also increased its monthly asset purchases to €80bn. These measures have struggled to make a significant impact in boosting economic growth and in helping inflation to rise from around zero towards the target of 2%. GDP growth rose by 0.6% in quarter 1 2016 (1.7% y/y) but slowed to +0.3% (+1.6% y/y) in quarter 2. This has added to comments from many forecasters that central banks around the world are running out of ammunition to stimulate economic growth and to boost inflation. They stress that national governments will need to do more by way of structural reforms, fiscal measures and direct investment expenditure to support demand in the their economies and economic growth.

Japan is still stuck in anaemic growth and making little progress on fundamental reform of their economy while Chinese economic growth has been weakening and medium term risks have been increasing.

3.2 Interest rate forecasts

The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Bank rate	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.25%	0.25%	0.25%	0.25%	0.50%
5yr PWLB rate	1.00%	1.00%	1.10%	1.10%	1.10%	1.10%	1.20%	1.20%	1.20%	1.20%	1.30%
10yr PWLB rate	1.50%	1.50%	1.60%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%	1.70%	1.80%
25yr PWLB rate	2.30%	2.30%	2.40%	2.40%	2.40%	2.40%	2.50%	2.50%	2.50%	2.50%	2.60%
50yr PWLB rate	2.10%	2.10%	2.20%	2.20%	2.20%	2.20%	2.30%	2.30%	2.30%	2.30%	2.40%

Capita Asset Services undertook a quarterly review of its interest rate forecasts after the MPC meeting of 4th August cut Bank Rate to 0.25% and gave forward guidance that it expected to cut Bank Rate again to near zero before the year end. The above forecast therefore includes a further cut to 0.10% in November this year and a first increase in May 2018, to 0.25%, but no further increase to 0.50% until a year later. Mark Carney, has repeatedly stated that increases in Bank Rate will be slow and gradual after they do start. The MPC is concerned about the impact of increases on many heavily indebted consumers, especially when the growth in average disposable income is still weak and could well turn negative when inflation rises during the next two years to exceed average pay increases.

The overall longer run trend is for gilt yields and Public Works Loan Board (PWLB) rates to rise, albeit gently. An eventual world economic recovery may also see investors switching from the safe haven of bonds to equities. However, we have been experiencing exceptional levels of volatility in financial markets which have caused significant swings in PWLB rates. The Capita Asset Services PWLB rate forecasts are based on the Certainty Rate (minus 20 bps) which has been accessible to most authorities since 1st November 2012.

The overall balance of risks to economic recovery in the UK remains to the downside. Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Monetary policy action reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some major developed economies, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
- Weak capitalisation of some European banks.
- A resurgence of the Eurozone sovereign debt crisis.
- Geopolitical risks in Europe, the Middle East and Asia, increasing safe haven flows.
- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or US Federal reserve rate increases, causing a further flight to safe havens (bonds).
- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners the EU and US.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- The pace and timing of increases in the US Federal reserve funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

4 Treasury Management Strategy Statement and Annual Investment Strategy update

The Treasury Management Strategy Statement (TMSS) for 2016/17 was approved by this Council on 17 February 2016.

• There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

5 The Council's Capital Position (Prudential Indicators)

This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

5.1 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

Capital Expenditure by Service	2016/17	2016/17	2016/17
	Original	Position as at	Revised
	Estimate	30/09/16	Estimate
	£'000	£'000	£'000
Total capital expenditure	4,608	712	5,078

The main material increases being the cost of the demolition of 1 The Causeway (£600k), Improvements to The Wash, Maidenhead Street & Bull Plain, Hertford (£500k) and the Section 106 grant funding paid to Network Homes to help fund affordable housing units (£288k). These have been partially offset by the Castle Weir Micro Hydro Scheme forecast as unlikely to commence in 2016/17 (£201k) and the funding for Future Social Housing Schemes forecast not to be spent in 2016/17 (£821k).

5.2 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure

Capital Expenditure	2016/17 Original Estimate £'000	2016/17 Revised Estimate £'000
Total capital expenditure	4,608	5,078
Financed by:		
Capital receipts	1,640	2,171
Capital grants	293	570
Capital reserves	14	1,491
Revenue	25	34
Total financing	2,636	812
Borrowing requirement	0	0

Movement in capital receipts represents sale of land at Aubries, Walkern (£1.4m), increased council house sales (£719k) partially offset by a reduction in expected sales of land, awaiting decision on housing company.

Movement in Capital grants is mainly due to an increased disabled facilities grant.

Movement in the use of Capital reserves are due to the demolition of 1 The Causeway (£600k), use of S106 to fund affordable housing schemes (£288k) and new tennis courts at Watton-On-Stone (£38k),

5.3 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary.

Prudential Indicator – Capital Financing Requirement

The council is currently in a negative CFR position. We are almost on target to achieve the original forecast Capital Financing Requirement but the change in the use of reserves originally forecast has resulted in a reduction in the net movement.

Prudential Indicator – the Operational Boundary for external debt

	2016/17 Original Estimate £m	2016/17 Revised Estimate £m
Prudential Indicator – Capital		
Financing Requirement		
Total CFR	(21,008)	(21,101)
		, i ,
Net movement in CFR	4	1
Prudential Indicator – the Operational Boundary for external debt		
Borrowing	7.5	7.5
Other long term liabilities*	0.3	0.3
Total debt (year end position)	7.8	7.8

^{*} On balance sheet finance leases etc.

5.4 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose*. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2016/17 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

^{*} The management of transferred debt should be excluded from net borrowing.

	2016/17 Original Estimate £m	2016/17 Revised Estimate £m
Borrowing	7.5	7.5
Other long term liabilities*	0.3	0.3
Total debt	7.8	7.8
CFR* (year end position)	(21,008)	(21,101)

^{*} Includes on balance sheet finance leases etc.

The Head of Strategic Finance and Property reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt	2016/17 Original Indicator £m	2016/17 Revised Indicator £m
Borrowing	12	12
Other long term liabilities*	1	1
Total	13	13

^{*} Includes on balance sheet finance leases etc.

6 Investment Portfolio

In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. As set out in Section 3, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.25% Bank Rate. The continuing potential for a re-emergence of a Eurozone sovereign debt crisis together with other risks which could impact on the creditworthiness of banks, prompts a low risk strategy. Given this risk environment, investment returns are likely to remain low.

The Council held £41.5m in short investments as at 30th September 2016 (£34.5m at 31 March 2016) and the investment portfolio yield for the first 6 months of the year is 0.71% against a benchmark 6months Libid uncompounded of 0.52 %.

The Council also holds £20m, as long term investments, in two property funds which have produced an average net yield of 3.6%

The Head of Strategic Finance and Property confirms that the approved limits within the Annual Investment Strategy were not breached during the first 6 months of 2016/17.

The Council's budgeted investment return for 2016/17 is £902k, and performance for the year to date is estimated at £18k above budget, however an assumption that recent economic events could result in a reduction in the property fund income has been built into this estimate.

Investment Counterparty criteria

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

7 Borrowing

The Council's capital financing requirement (CFR) for 2016/17 is (£21,012m). The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. Table 5.4 shows the Council has borrowings of £7.8m.

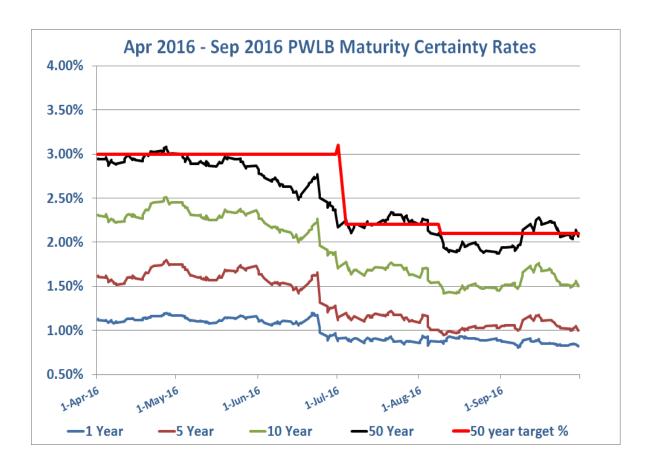
As shown in the graph below, the general trend to date has been a sharp fall in interest rates in the current financial year.

The Council is in a negative CFR position and it is anticipated that further borrowing will not be undertaken during this financial year.

The graph and table below show the movement in PWLB certainty rates for the first six months of the year to date:

PWLB certainty rates 1 April 2016 to 30TH September 2016

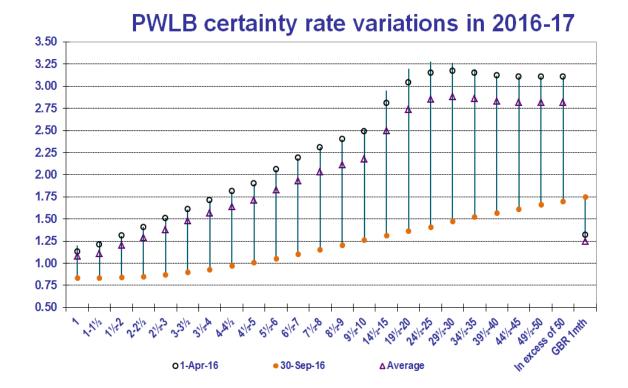
	1 Year	5 Year	10 Year	25 Year	50 Year
1/4/16	1.13%	1.62%	2.31%	3.14%	2.95%
30/9/16	0.83%	1.01%	1.52%	2.27%	2.10%
Low	0.81%	0.95%	1.42%	2.08%	1.87%
Date	07/09/2016	10/08/2016	10/08/2016	12/08/2016	30/08/2016
High	1.20%	1.80%	2.51%	3.28%	3.08%
Date	27/04/2016	27/04/2016	27/04/2016	27/04/2016	27/04/2016
Average	0.99%	1.33%	1.92%	2.69%	2.46%



8 Debt Rescheduling

Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates, and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

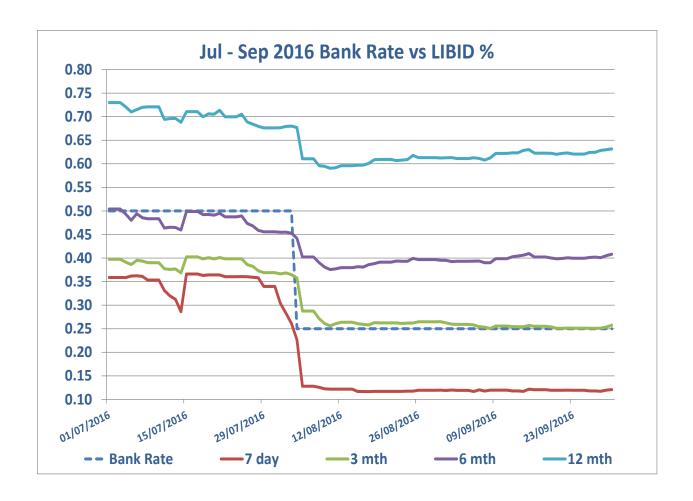
APPENDIX 1: Borrowing



APPENDIX 2: Investments

Investment performance year to 30 September 2016

Benchmark	Benchmark Return (LIBID Uncompounded)	Council Performance
7 day	0.28%	0.28%
1 month	0.30%	0.40%
3 month	0.38%	0.55%
6 month	0.52%	0.65%
12 month	0.76%	0.84%



APPENDIX 3: Detailed commentary on interest rate forecasts

Our treasury management advisers, Capita Asset Services have provided us with the following update to their interest rate forecasts.

August quarterly inflation report review

- 4.8.16 MPC decisions: -
 - Bank Rate cut from 0.50% to 0.25%
 - o new gilt purchases of £60bn
 - o high quality corporate bond purchases of £10bn
 - o Term Funding Scheme to provide £100bn of cheap funding to banks
 - o last three measures to be financed by creation of new central bank reserves boosting the Bank's Asset Purchase Facility from £375bn to £545bn
- Forward guidance that a further cut to near zero (0.10%?), is likely probably November quarterly
 inflation report meeting, if data comes in as forecast, but Carney has dismissed the ideas of negative
 rates and helicopter money
- Considerable variety of views as to whether these latest measures will have much direct impact on the
 economy; but they are likely to have an indirect effect by impacting on perceptions and boosting
 confidence that the Bank is taking action and doing as much as possible so this WILL help sentiment.
- Limited benefit of a quarter per cent cut in Bank Rate on the cost of mortgages but also because 36% of households rent, 33% own their property outright, so only 30% own their homes by mortgages and only half of those are on variable rate mortgages.
- The Chancellor has said he will do 'whatever is needed' i.e. to promote growth; two options fiscal policy e.g. cut taxes, increase investment allowances for businesses etc and / or increase government expenditure on infrastructure, housing etc. This will mean that the deficit elimination timetable will need to slip further into the future as promoting growth (and ultimately boosting tax revenues in the longer term), will be a more urgent priority.
- Our tentative forecast is for increases in Bank Rate in May 2018 to 0.25% and to 0.50% May 2019; but these will very much depend on how strongly, and how soon, the UK economy makes a gradual recovery, and so start a process of very gradual increases in Bank Rate over a prolonged period
- GDP forecasts Bank of England 2016 +2.0% unchanged; 2017 +0.8%, 2018 +1.8% sharply down. Note this is not indicating a return to recession.
- GDP forecasts Capital Economics 2016 +1.7%, 2017 +1.5%, 2018 +2.5%. They feel that pessimism has been overdone and Brexit will not have as big an effect as feared
- Consumer confidence fell very sharply on the GfK consumer confidence index immediately after the Brexit vote but fully recovered by the end of September.
- The July UK PMIs, (published early August), fell very sharply but a month later, rebounded equally sharply showing that initial pessimism was an alarmist over reaction. In addition, the Visa UK monthly index published 8 August showed consumer spending rising by 1.6% in July (i.e. fully after the referendum), showing that actual consumer behaviour and rate of expenditure has been little impacted by the Brexit result.
- The Bank of England quarterly Inflation Report shows Inflation rising up above the MPC's 2% target in 2018 to about 2.4% in 2018 and 2019 due to the recent fall in the value of sterling etc., but the MPC is likely to look through that and take a longer term view in order to give time for economic growth to recover.
- Rising EU and geopolitical risks e.g.
 - Current under capitalisation of Italian and some German banks poses a major risk with state aid firmly ruled out by the EU as a potential way out
 - Italian constitutional referendum on 4 December 2016 on reforming the Senate and reducing its powers, has also become a confidence vote on Prime Minister Renzi who has said he will resign if there is a 'no' vote; this could destabilise Italy and stop progress to fundamental political and economic reform which is urgently needed to deal with Italy's core problems, especially low growth
 - Nov 2016 US presidential election
 - 2017: French Presidential election April May and German Federal general election between August and October could be affected by significant shifts in voter intentions as a result of terrorist attacks and a rise in anti EU sentiment

- Core EU principle of free movement of people within the EU is a growing issue leading to major stress and tension between EU states
- US next rate rise now likely to be postponed until December 2016; rate rises will cause Treasury yields to also rise and so cause a growing gap between Treasury and gilt yields over time
- Lacklustre economic growth in the EU, (our biggest trading partner), but could be negatively impacted by any adverse political developments
- Japan bogged down in anaemic growth and making little progress on fundamental reform of the economy
- Chinese economic growth weakening; medium term risks increasing
- Most of the major developed economies of the world, apart from the US, appear to be becoming bogged down in lacklustre growth with central banks running out of ammunition to provide further support to economic growth. National governments will need to support economic growth by undertaking structural reforms, fiscal policy and direct investment expenditure.

CAPITA ASSET SERVICES' FORWARD VIEW

Economic forecasting remains difficult with so many external influences weighing on the UK. Our Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Forecasts for average earnings beyond the three year time horizon will be heavily dependent on economic and political developments. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, or the safe haven of bonds.

The overall longer run trend is for gilt yields and PWLB rates to rise, albeit gently. An eventual world economic recovery may also see investors switching from the safe haven of bonds to equities.

We have pointed out consistently that the Fed. rate is likely to go up more quickly and more strongly than Bank Rate in the UK and recent events have not changed that view, just that the timing of such increases may well have been deferred somewhat. While there is normally a high degree of correlation between the two yields, we would expect to see a growing decoupling of yields between the two i.e. we would expect US yields to go up faster than UK yields. We will need to monitor this area closely and the resulting effect on PWLB rates.

The overall balance of risks to economic recovery in the UK remains to the downside.

We would, as always, remind clients of the view that we have expressed in our previous interest rate revision newsflashes of just how unpredictable PWLB rates and bond yields are at present. We are experiencing exceptional levels of volatility which are highly correlated to emerging market, geo-political and sovereign debt crisis developments. Our revised forecasts are based on the Certainty Rate (minus 20 bps) which has been accessible to most authorities since 1st November 2012.

Apart from the uncertainties already explained above, downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Monetary policy action reaching its limit of effectiveness and failing to stimulate significant sustainable growth, combat the threat of deflation and reduce high levels of debt in some major developed economies, combined with a lack of adequate action from national governments to promote growth through structural reforms, fiscal policy and investment expenditure.
- Weak capitalisation of some European banks.
- A resurgence of the Eurozone sovereign debt crisis.
- Geopolitical risks in Europe, the Middle East and Asia, increasing safe haven flows.
- Emerging country economies, currencies and corporates destabilised by falling commodity prices and / or Fed. rate increases, causing a further flight to safe havens (bonds).

- UK economic growth and increases in inflation are weaker than we currently anticipate.
- Weak growth or recession in the UK's main trading partners the EU and US.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- The pace and timing of increases in the Fed. funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.
- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.25	0.25	0.25	0.25	0.50
3 month LIBID	0.20	0.20	0.20	0.20	0.20	0.30	0.30	0.30	0.40	0.50	0.60
6 month LIBID	0.30	0.30	0.30	0.40	0.40	0.50	0.50	0.50	0.60	0.60	0.70
12 month LIBID	0.50	0.50	0.60	0.60	0.70	0.70	0.70	0.80	0.80	0.80	0.90
5 yr PWLB	1.00	1.00	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.30
10 yr PWLB	1.50	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80
25 yr PWLB	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.60
50 yr PWLB	2.10	2.10	2.20	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.40

BANK RATE	now	previously
Q3 2016	0.25%	0.25%
Q1 2017	0.10%	0.25%
Q1 2018	0.10%	0.25%
Q1 2019	0.25%	0.50%

Our suggested budgeted investment earnings rates for investments up to about three months duration in each financial year for the next seven years are as follows: -

Average earnings in each year	Now	Previously
2016/17	0.25%	0.25%
2017/18	0.10%	0.25%
2018/19	0.25%	0.50%
2019/20	0.50%	0.50%
2020/21	0.75%	0.75%

2021/22	1.00%	1.25%
2022/23	1.25%	1.50%
2023/24	1.50%	2.00%
Later years	2.50%	2.75%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts. The general expectation for an eventual trend of gently rising gilt yields and PWLB rates is expected to remain unchanged. Negative, (or positive), developments could significantly impact safe-haven flows of investor money into UK, US and German bonds and produce shorter term movements away from our central forecasts.

Our interest rate forecast for Bank Rate is in steps of 25 bps whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps.

Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

APPENDIX 4: Approved countries for investments

Based on lowest available rating

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Finland
- Hong Kong
- U.S.A.

AA

- Abu Dhabi (UAE)
- France
- Qatar
- U.K.



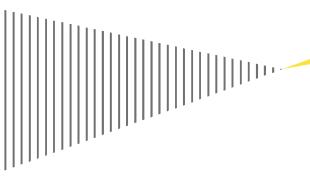
Agenda Item 7

East Hertfordshire District Council

Annual Audit Letter for the year ended 31 March 2016

October 2016

Ernst & Young LLP





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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies 2015-16". It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment from 1 April 2015' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



Executive Summary

We are required to issue an Annual Audit Letter to East Hertfordshire District Council (the Council) following completion of our audit procedures for the year ended 31 March 2016.

Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's:	
► Financial statements	Unqualified - the financial statements give a true and fair view of the financial position of the Council at 31 March 2016 and of its expenditure and income for the year then ended
 Consistency of other information published with the financial statements 	Other information published with the financial statements was consistent with the Statement of Accounts 2015/16
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources

Area of Work	Conclusion
Reports by exception:	
► Consistency of Annual Governance Statement	The Annual Governance Statement was consistent with our understanding of the Council
▶ Public interest report	We had no matters to report in the public interest
 Written recommendations to the Council, which should be copied to the Secretary of State 	We had no matters to report
 Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014 	We had no matters to report

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Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 30 September 2016
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 30 September 2016

In January 2017, we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Debbie Hanson Executive Director For and on behalf of Ernst & Young LLP



Purpose

The Purpose of this Letter

The purpose of this Annual Audit Letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the findings from our audit work in our 2015/16 Audit Results Report which was presented to the 21 September 2016 meeting of the Audit and Governance Committee, representing those charged with governance. We issued our final Audit Results report, which include an update on the audit work that was ongoing as at 21 September, on 30 September. We do not repeat those detailed findings in this Letter. The matters reported here are the most significant for the Council.



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Responsibilities

Responsibilities of the Appointed Auditor

Our 2015/16 audit work has been undertaken in accordance with the Audit Plan that we issued on 2 March 2016 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ► Expressing an opinion:
 - ▶ On the 2015/16 financial statements; and
 - On the consistency of other information published with the financial statements.
- Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ► Reporting by exception:
 - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
 - ► Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the NAO.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an ungualified audit report on 30 September 2016.

Our detailed findings were reported to the 21 September 2016 meeting of the Audit and Governance Committee.

The key issues identified as part of our audit were as follows:

Significant Risk Conclusion Management override of controls A risk present on all audits is that management is in a unique We obtained a full list of journals posted to the general ledger during the year, position to perpetrate fraud because of its ability to and analysed these journals using criteria we set to identify any unusual journal manipulate accounting records directly or indirectly, and types or amounts. We then tested a sample of journals that met our criteria and prepare fraudulent financial statements by overriding tested these to supporting documentation. controls that otherwise appear to be operating effectively. We have not identified any material weaknesses in controls or evidence of Auditing standards require us to respond to this risk by material management override. testing the appropriateness of journals, testing accounting We have not identified any instances of inappropriate judgements being applied. estimates for possible management bias and obtaining an We did not identify any other transactions during our audit which appeared understanding of the business rationale for any significant unusual or outside the Council's normal course of business. unusual transactions. Revenue and expenditure recognition Auditing standards also required us to presume that there is Our testing has not revealed any material misstatements with respect to revenue a risk that revenue and expenditure may be misstated due to and expenditure recognition. improper recognition or manipulation. Overall our audit work did not identify any issues or unusual transactions which We respond to this risk by reviewing and testing material indicated that there had been any misreporting of the Council's financial position. revenue and expenditure streams and revenue cut-off at the

year end.

For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override. We therefore review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.

Our testing did not identify any expenditure which had been inappropriately capitalised.

Other Risk	Conclusion
Purchase of Old River Lane	
The Council has purchased a significant investment property in Bishop's Stortford, part of which it had previously owned. This is a significant transaction with a value of £20.5 million.	We reviewed the acquisition and any subsequent revaluation of the acquired asset and confirmed that it had been correctly accounted for and appropriately disclosed in the financial statements.



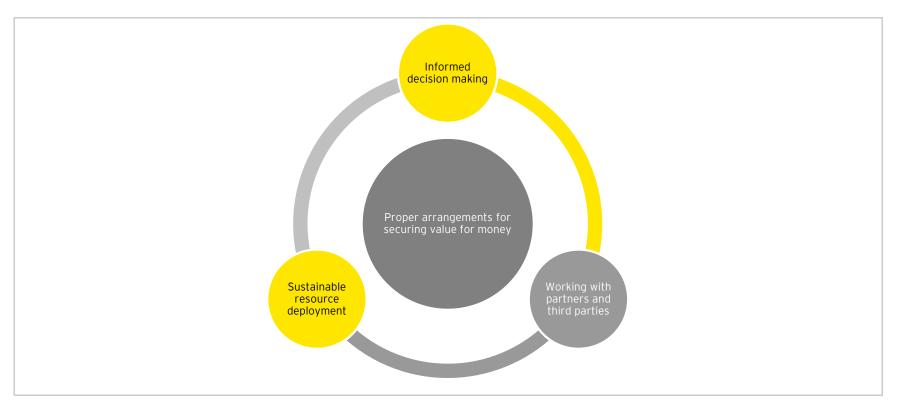
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Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.



We issued an unqualified value for money conclusion on 30 September 2016.

We identified three significant risks in relation to our value for money conclusion, relating to the following areas:

- Achievement of savings needed over the medium term (sustainable resource deployment);
- Arrangements for procuring supplies and services effectively to support the delivery of strategic priorities (sustainable resource deployment); and
- Governance arrangement for the purchase of Old River Lane (informed decision making).

We performed the procedures outlined in our Audit Plan and concluded that the Council had adequate arrangements in place.

As part of our work we considered the following areas and made the following observations.

Key findings

Achievement of Savings over the Medium Term

In its updated Medium Term Financial Plan, issued in February 2016, the Council identified a cumulative funding gap of £2.3 million over the next three years. Bridging this gap to ensure its future financial viability presents a significant challenge for the Council. One specific area of uncertainty for the Council is the £3 million of New Homes Bonus (NHB) grant currently included in the budget each year. As part of its response to this challenge, the Council has identified the need to generate efficiency savings and additional income of £1.3 million over the next four years. Given the scale of the savings needed and the uncertainties in future funding streams, there is a risk to the Council's future financial position.

As a result of this risk, we considered:

- The adequacy of the Council's budget monitoring process, comparing budget to outturn.
- The robustness of any assumptions used in medium term planning.
- The Council's approach to prioritising resources whilst maintaining services.
- The savings and income plans in place, and assessing the likelihood of whether these plans can provide the Council with the required savings and efficiencies over the medium term.

The main findings from the work we have undertaken are:

- The Council has appropriate budget monitoring arrangements and, based on the evidence provided, the Council are on track to deliver the majority of saving identified for 2016/17, with any remaining gap remaining within reasonable levels.
- The Council has a good record of delivering its budget and planned savings, having delivered savings of £0.797 million and £0.108 million in 2012/13 and 2013/14 respectively, while also underspending or breaking even on spend on services. This consistent performance indicates that the Council has a sound system of budgetary control.
- The Council's Medium Term Financial Plan (MTFP) is based on a number of assumptions, including estimates of future levels of

Government funding from areas such as Revenue Support Grant (RSG) and the New Homes Bonus (NHB) as well as income from areas such as council tax and business rates. The Council recognises the risks around these sources of income and the MTFP includes reasonable assumptions for reduction in RSG and NHB over future years. By the end of the spending review's four year settlement, the Council's RSG grant funding will have reduced to zero and this is reflected in the budget. The Council has also made prudent assumptions about the growth in the council tax base and the level of income from business rates.

- The Leadership Team has undertaken work to identify further savings to reduce the 2017/18 budget gap. While not all options will be viable, actions are being taken and this remains a top priority for senior management. There remains however a cumulative funding gap by 2018/19 of over £2 million for which efficiency savings have not as yet been fully identified or quantified. The Council is continuing to work on ways to reduce this gap, including developing strategies around waste and leisure and recreation. Given the Council's history of delivering savings and a balanced budget, we have concluded that it is likely that appropriate savings and efficiencies will be identified and delivered.
- At the end of 2016, the Council's General Fund balance was £3.8 million. This is significantly above minimal level of £3 million recommended by the Council's Finance Director. The Council also has earmarked reserves of £11.6 million and a general reserve of just under £1.2 million. The Council plans to use some of these reserves to help fund the budget gaps over the medium term, with £2.1 million allocated to bridge the 2016/17 funding gap. Some of the earmarked reserves are allocated towards specific items of spend but not all are specifically allocated and so could be released to support budgets in the short term if needed.
- While current projections are that the level of earmarked reserves would remain above the minimum level recommended by the Finance Director, reliance on the use of reserves on an ongoing basis to balance the budget is not sustainable. Although we recognise that this is part of a short term strategy to manage the period of transition during which efficiency savings are being identified to provide longer term solutions, this still presents a risk to the Council's future financial sustainability. Should efficiencies and savings not be identified to bridge the funding gaps in future years this would result in further reductions in the Council's reserves.

Arrangements for Procuring Supplies and Services

Following the issue of our Audit Plan in March 2016, we identified some weaknesses in the Council's arrangements for procuring supplies and services. The issues identified were that the Council did not have contracts with some of its suppliers and did not always source sufficient quotes from suppliers for the provision of goods and services.

As a result of the issues identified we reviewed a sample of procurements undertaken during the year to confirm that appropriate quotations had been obtained in line with the Council's procedures. Our testing found that the appropriate number of quotes had been obtained for the sample of contracts we tested.

Our work did however identify some weaknesses in the Council's arrangements, including the lack of a complete and accurate contracts register. The lack of such a register means that the Council may fail to identify on a timely basis contracts that are due for renewal and may therefore not be able to put in place appropriate procurement arrangements to ensure the best value for money.

Governance Arrangements for the Purchase of Old River Lane

During 2015/16, the Council purchased a significant investment property in Bishop's Stortford, part of which it had previously owned. This was a significant transaction outside the Council's normal activities.

We therefore considered the governance arrangements relating to the purchase to ensure it was supported by appropriate decision making arrangements.

Our approach focused on assessing whether the arrangements supporting the decision:

- Demonstrate the application of the principles and values of sound governance.
- Used appropriate and reliable financial and performance information to support the decision.
- Provide evidence that the risk related to the acquisition have been clearly identified and managed effectively.

We found that:

- The decisions relating to the purchase were supported by appropriate reports including analysis of financial information; and
- The risks related to the procurement have been identified and are being managed.



Other Reporting Issues

Whole of Government Accounts

The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2015/16 financial statements from any member of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

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Independence

We communicated our assessment of independence in our Audit Results Report to the Audit and Standards Committee on 7 September 2016. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

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Focused on your Future

Area Issue Impact Many of the issues and challenges that face the UK EU referendum Following the majority vote to end the UK's membership of the public sector will continue to exist, not least because European Union (EU) in the EU Referendum held on 23 June 2016 continued pressure on public finances will need there is a heightened level of volatility in the financial markets and responding to. Additionally it may well be that the increased macroeconomic uncertainty in the UK. All three major challenges are increased if the expected economic rating agencies (S&P, Fitch and Moody's) took action on the UK impacts of the referendum and loss of EU grants Sovereign credit rating and, following the rating action on the UK outweigh the benefits of not having to contribute to Government. For entities in the public sector, there is likely to be an the EU and require even more innovative solutions. impact on investment property valuations if confidence in the wider UK property market falls; and the valuation of defined benefit We are committed to supporting our clients through this period, and help identify the opportunities that will pension obligations may also be affected. It is too early to estimate the quantum of any impact of these issues, but there is likely to be also arise. We will engage with you on the concerns significant ongoing uncertainty for a number of months while the UK and questions you may have, provide our insight at key renegotiates its relationships with the EU and other nations. points along the path, and provide any papers and analysis of the impact of the referendum on the

Government and Public Sector market.



Audit Fees

Our planed audit fee for 2015/16 is broadly in line with the scale fee set by PSAA and the planned fee reported in our 2015/16 Audit Plan.

Description	Final Fee 2015/16 £'s	Planned Fee 2015/16 £'s	Scale Fee 2015/16 £'s
Audit Fee - Accounts code work	*53,102	52,331	52,331
Audit Fee - Grant claims work	**8,316	8,316	8,316
Total	61,418	60,647	60,647

^{*} A scale fee variation of £771 has been proposed regarding the additional work that we were required to undertake in response to the significant risks identified in relation to our value for money conclusion. This proposed fee has been agreed with the Council and is subject to approval PSAA.

We confirm we have undertaken no non-audit work outside of the Code requirements.

^{**} We are currently undertaking our audit of the Council's Housing Benefit Subsidy claim and will report on the final fees charged in our certification report to be issued to the Council in February 2017.

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EY | Assurance | Tax | Transactions | Advisory

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ED Non

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Agenda Item 8

EAST HERTS COUNCIL

AUDIT AND GOVERNANCE COMMITTEE - 23 NOVEMBER 2016

REPORT BY EXECUTIVE MEMBER FOR FINANCE AND SUPPORT SERVICES

THE COUNCIL'S RESPONSE TO THE ANNUAL AUDIT LETTER

WARD(S) AFFECTED:	ALL	
	·		

Purpose/Summary of Report

 This report sets out the proposed response from the Council to the issues and recommendations raised in the Annual Audit Letter 2015/16.

	MMENDATIONS FOR THE AUDIT AND GOVERNANCE MITTEE: That:
(A)	The Committee agrees the response to the Annual Audit Letter.

1.0 Background

- 1.1 All councils are subject to independent, external review by an external auditor with the final conclusions and recommendations being presented to the Council in the Annual Audit Letter (AAL).
- 1.2 The AAL for the financial year 2015/16, found (please refer to agenda item 7), summarises the key findings arising from the external audit along with proposed responses from the Council to these.
- 1.3 The AAL will be published on the council's website in order to comply with the publication requirements contained within the Accounts and Audit Regulations 2015.

2 Report

2.1 The AAL summarises the key issues and recommendations arising from the work undertaken by Ernst & Young LLP for the year ended 2015/16.

- 2.2 The letter follows on from the Audit Findings Report submitted to the Audit Committee on 21 September 2016.
- 2.3 The AAL confirms that the council received an unqualified opinion on both its financial statements for the year ended 2015/16 and for the value for money conclusion on 30 September 2016.
- 2.4 No issues have been raised in the AAL that were not raised in the Audit Findings Report.
- 2.5 The AAL documents three key issues with regard to the Financial Statement Audit. We will consider the conclusions reached on each of these points, although no recommendations for action were made.
- 2.6 The AAL documents three significant risks with regard to Value for Money. The audit concluded that the Council has adequate arrangements in place and no recommendations for action were made.
- 2.7 The Council's officers look forward to working with EY to plan a successful audit for the 2016/17 accounts.
- 3 <u>Implications/Consultations</u>
- 3.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper A**.

Background Papers - None

<u>Contact Member</u>: Councillor Geoffrey Williamson, Executive Member

for Finance and Support Services.

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Head of Strategic Finance & Property,

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ESSENTIAL REFERENCE PAPER 'A'

IMPLICATIONS/CONSULTATIONS

Contribution to the Council's Corporate	Priority 1 – Improve the health and wellbeing of our communities
Priorities/ Objectives	Priority 2 – Enhance the quality of people's lives
(delete as appropriate):	Priority 3 – Enable a flourishing local economy
	The report provides a response to the Annual Audit Letter arising from the external audit of 2015/16 financial statements and value for money. This contributes to all the Corporate Priorities.
Consultation:	None
Legal:	No specific implications arise from this report.
Financial:	There are no direct financial implications arising from the report.
Human Resource:	No specific implications arise from this report
Risk Management:	This report documents significant matters related to the ongoing governance of the council.
Health and wellbeing – issues and impacts:	No specific implications arise from this report.





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SG13 8EQ

18 April 2016

Ref: EHDC/Annual audit fee 16-17

Email: DHanson@uk.ey.com

Dear Liz

Annual Audit Fees 2016/17

We are writing to confirm the audit and certification work that we propose to undertake for the 2016/17 financial year at East Hertfordshire District Council.

Indicative audit fee

For the 2016/17 financial year the PSAA has set the scale fee for each audited body, following consultation on its Work Programme and Scale of Fees.

The fee reflects the risk-based approach to audit planning set out in the National Audit Office's Code of Audit Practice for the audit of local public bodies. The audit fee covers the:

- Audit of the financial statements
- Value for money conclusion
- Whole of Government accounts.

For East Hertfordshire District Council, the indicative audit fee is set at the scale fee level.

The 2016/17 scale fee is based on certain assumptions, including:

- The overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year;
- We are able to place reliance on the work of internal audit to the maximum extent possible under auditing standards;
- The financial statements will be available to us in line with the agreed timetable;
- Working papers and records provided to us in support of the financial statements are of a good quality and are provided in line with our agreed timetable; and
- Prompt responses are provided to our draft reports.

Meeting these assumptions will help ensure the delivery of our audit at the indicative audit fee which is set out in the table below.

For East Hertfordshire District Council this fee is set at the scale fee level as the overall level of audit risk is not significantly different from that of the prior year.

As we have not yet completed our audit for 2015/16, our audit planning process for 2016/17 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract.

Certification fee

The PSAA has set an indicative certification fee for housing benefit subsidy claim certification work for each audited benefits authority. The indicative fee is based on actual 2014/15 housing benefit certification fees, and incorporating a 25 per cent reduction.

The indicative certification fee is based on the expectation that an audited body is able to provide the auditor with complete and materially accurate housing benefit subsidy claim with supporting working papers, within agreed timeframes.

The indicative certification fee for 2016/17 relates to work on the housing benefit subsidy claim for the year ended 31 March 2017. We have set the certification fee at the indicative fee level. We will update our risk assessment after we complete 2015/16 benefit certification work, and to reflect any further changes in the certification arrangements

Summary of fees

	Indicative fee 2016/17 £	Planned fee 2015/16 £	
Total Code audit fee	52,331	52,331	
Certification of housing benefit subsidy claim	5,955	8,316	

Billing

The indicative audit fee will be billed in 4 quarterly instalments.

Audit plan

We aim to issue our 2016-17 audit plan early in 2017. This will communicate any significant financial statement risks identified, planned audit procedures to respond to those risks and any changes in fee. It will also set out the significant risks identified in relation to the value for money conclusion. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Head of Financial Control and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Audit Committee.

Audit team

The key members of the audit team for the 2016/17 financial year are:

Debbie Hanson

Director DHanson@uk.ey.com Tel: 07974 006715

Francesca Palmer

Assistant Manager FPalmer1@uk.ey.com Tel: 07876 217967

We are committed to providing you with a high quality service. If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, please contact me. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London, SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute.

Yours faithfully

Debbie Hanson Director For and on behalf of Ernst & Young LLP United Kingdom



EAST HERTS COUNCIL

AUDIT AND GOVERNANCE COMMITTEE - 23 NOVEMBER 2016

REPORT BY THE HEAD OF STRATEGIC FINANCE AND PROPERTY

UPDATE ON IMPLEMENTATION OF ANNUAL GOVERNANCE STATEMENT 2016/17 ACTION PLAN

WARD(S) AFFECTED: ALL

Purpose/Summary of Report:

The 2015/16 Annual Governance Statement contains two
measures to enhance East Herts Council's internal control
framework during 2015/16. The Audit Committee is requested to
consider the content of Essential Reference Paper 'B' that
provides details of proposed actions that need to take place prior
to confirmation being given that adequate and effective controls
are fully in place.

RECOMMENDATIONS FOR AUDIT AND GOVERNANCE COMMITTEE:

That:

(A) the Committee reviews the progress made against implementing the action plan contained in the 2015/16 Annual Governance Statement and advises of any recommendations.

1 Background

1.1 The Annual Governance Statement Action Plan has identified key responsible officers and timescales and is monitored through reports to this Committee. Actions needed to address issues have been identified and are monitored on a R(ed), A(mber) and G(reen) basis.

2 Report

- 2.1 For the purposes of the Annual Governance Statement, internal control is being interpreted in its broadest sense covering both financial and management controls that ensure that the implementation of East Herts Council's vision and priorities is being managed effectively.
- 2.2 Position statements are reflected in **Essential Reference Paper 'B'** following consultation with key responsible officers. The position statement contains a traffic light system whereby:
 - "Green" indicates that the planned action has been achieved,
 - "Amber" indicates that satisfactory progress is being made towards achieving the planned action, and
 - "Red" is where a planned action has not been achieved or that progress is unsatisfactory.
- 2.3 The Annual Governance Statement Action Plan was approved by the Audit and Governance Committee on 213 September 2016.
- 2.4 This is the first position statement report since approval of the Annual Governance Statement. Current positions have been reflected and a RAG status is shown against each action.

Implications/Consultations

3.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper 'A'**.

Background Papers

Annual Governance Statement 2015/16 – Audit Committee 21 September 2016.

Contact Member: Councillor Linda Haysey,

Leader of the Council.

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linda.haysey@eastherts.gov.uk

Contact Officers/

Report Author: Philip Gregory

Head of Strategic Finance & Property

Extn: 2050

philip.gregory@eastherts.gov.uk

ESSENTIAL REFERENCE PAPER 'A'

IMPLICATIONS/CONSULTATIONS

Contribution to the Council's Corporate	Priority 1 – Improve the health and wellbeing of our communities
Priorities/ Objectives	Priority 2 – Enhance the quality of people's lives
(delete as appropriate):	Priority 3 – Enable a flourishing local economy
	The report summarises progress on implementing key actions with regard to the governance of the Council in 2016/17 and contributes to all the Corporate Priorities.
Consultation:	Extensive consultation took place on the action plan in order to agree the actions.
Legal:	No specific implications arise from this report.
Financial:	There are no direct financial implications arising from the report.
Human Resource:	No specific implications arise from this report
Risk	This report documents significant matters related to the
Management:	ongoing governance of the council.
Health and wellbeing – issues and impacts:	No specific implications arise from this report.



ANNUAL GOVERNANCE STATEMENT ACTION PLAN 2016/17

Significant governance issues

Required enhancements to internal control arrangements:

Issue	Resp. Off.	Initial Target Date	Actions needed to achieve milestone	Current Position	RAG Status
Impact of Welfare Reform changes	Leadership Team	Oct 2016	 Impending Legislation will have an adverse financial impact on a significant number of residents. Officers will monitor the impact of these changes both on residents and the business of the Council. 	These are being actively monitored by officers in Housing & Health and Revenues & Benefits.	AMBER
			 Provide residents more support for services across the Council through staffing levels, budget management and the communication with residents. 	Heads of Service are assessing their service requirements as part of the Finance and Business Planning process	AMBER
D			Implement Council policies effectively.	This is ongoing	AMBER

ESSENTIAL REFERENCE PAPER 'B'

Pagesue	Resp. Off.	Initial Target Date	Actions needed to achieve milestone	Current Position	RAG Status
Development of a District Plan that is approved by the planning inspectorate.	Leadership Team	Dec 2017	Plan to be agreed within required timeframe.	Plan is currently out for public consultation	AMBER

Agenda Item 11

EAST HERTS COUNCIL

AUDIT AND GOVERNANCE COMMITTEE - 23 NOVEMBER 2016

REPORT BY THE EXECUTIVE MEMBER FOR FINANCE AND SUPPORT SERVICES

RISK MANAGEMENT STRATEGY

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

The Risk Management Strategy has been reviewed and updated.

RECO That:	MMENDATIONS FOR AUDIT COMMITTEE:
(A)	The updated Risk Management Strategy be scrutinised; and
(B)	The Executive be advised of any recommendations.

- 1.0 Background
- 1.1 The Risk Management Strategy is reviewed annually. This report details amendments since March 2015, including following review by Audit Committee in March 2016.
- 2.0 Report
- 2.1 Risk management can be defined as:

 The process which aims to help organisations understand,
 evaluate and take action on all their risks with a view to increasing
 the probability of their success and reducing the likelihood of their
 failure. (Source: The Institute of Risk Management).
- 2.2 By managing risks effectively, the Authority is in a stronger position to deliver services in accordance with corporate priorities. By managing opportunities, it is better positioned to provide

- continuous improvement in its services, and better value for money.
- 2.3 The Risk Management Strategy is reviewed annually and was presented to Audit Committee on 18 March 2015 and 16 March 2016.
- 2.4 On 16 March 2016, Audit Committee supported the revised Risk Management Strategy in principle, but requested that changes to the senior management structure be reflected. The impact of the senior management and meeting structure changes on risk management processes were therefore considered by Leadership Team on 10 May 2016. A trial was then arranged at the end of quarter two, once new post holders were in place, before resubmission of the Risk Management Strategy through the Committee process.
- 2.5 Alterations have been tracked in **Essential Reference Paper 'B'**, with a "clean" version of the same document also provided at **Essential Reference Paper 'C'**. The Strategy will also be submitted to The Executive and Council.
- 2.6 The primary amendments are:
- 2.7 Reduction of the number of operational / service risks monitored.
- 2.8 Quarterly discussions now take place between the Risk Assurance Officer and individual Heads of Service, rather than challenge at the previous Department Management Team meetings. Any concerns are escalated to Leadership Team for consideration.
- 2.9 Covalent is used (for Members' benefit) to record strategic risks only. Use of Covalent for risk monitoring may be phased out altogether with a separate document available for Members, potentially on the intranet.
- 3.0 <u>Implications/Consultations</u>
- 3.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper** 'A'.

Risk Management Strategy – Audit Committee 16 March 2016 and 18 March 2015, Executive 2 June 2015 and Council 29 July 2015.

<u>Contact Member</u>: Cllr Linda Haysey

Leader of the Council

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Risk Assurance Officer

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ESSENTIAL REFERENCE PAPER 'A'

IMPLICATIONS/CONSULTATIONS

Contribution to the Council's Corporate Priorities/ Objectives:	Priority 1 – Improve the health and wellbeing of our communities Priority 2 – Enhance the quality of people's lives Priority 3 – Enable a flourishing local economy
Consultation:	There are no specific consultation implications arising directly from this report.
Legal:	There are no specific legal implications arising directly from this report.
Financial:	There are no specific financial implications arising directly from this report.
Human Resource:	There are no specific human resource implications arising directly from this report.
Risk Management:	There are no additional risk management implications to those already contained in this report. However, it should be noted that if East Herts did not have a risk management monitoring process, the Authority would be seen to be not managing risks appropriately, which would have a significant negative impact on recommendations made by the External Auditors through the Annual Audit Letter.
Health and wellbeing – issues and impacts:	There are no specific health and wellbeing implications arising directly from this report.



Essential Reference Paper 'B'



Risk Management Strategy

2016/17 version 2. October 2016.

CMT
Audit Committee
Audit and Governance Committee

23 February 2016 16 March 2016 23 November 2016 **Contents**

Comment [MG1]: To be corrected once changes tracked

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Section 1 - Context

Policy statement

Risk is present in everything that we do, so it is our policy to identify, assess and manage the key areas of risk.

East Herts Council recognises that risk management is an essential element of good governancea vital activity, and we seek tomust be embedded risk management into the culture of the Authority. This includes the strategic decision making process, service planning, project management, partnerships, audit, procurement and contracts. It supports informed decision making thereby enabling opportunities to be exploited, or action to be taken to mitigate or manage risk to an acceptable level.

In order to obtain a clear picture of the risks that threaten the Council's ability to achieve its objectives, it is important that the Council determines its 'risk appetite' – the level of risk that is considered acceptable for the organisation to be exposed to. The Risk Management Strategy reflects our 'risk appetite', the size of the Authority, and the nature of our operations and the drive to reduce bureaucracy.

The processes in place should provide assurance to all stakeholders that the identification and management of risk plays a key role in the delivery of our strategy and related objectives.

The objectives of this strategy are:

- Define what risk management is about and what drives risk management within the Council.
- Set out the benefits of risk management and the strategic approach to risk management.
- Outline how the strategy will be implemented.
- Identify the relevant roles and responsibilities for risk management within the Council.
- Formalise the risk management process across the Council.

Approval, Communication, Implementation and Review of the Risk Management Strategy

The Risk Management Strategy is on the intranet, and is specifically issued to:

- The Executive
- Audit and Governance Committee
- Corporate Management Leadership Team
- Senior managers

To demonstrate how risk management contributes to the achievement of the Council's and service objectives, t<u>T</u>raining is provided to those listed above, and members of staff who prepare committee reports and / or those who should consider risk in the roles that they perform.

The strategy is reviewed internally each year, and following key changes in central or local policies. Risk management is also subject to frequent audit by the Shared Internal Audit Service (SIAS).

Section 2 - What is risk management and why do we do it?

Risk Management can be defined as:

The process which aims to help organisations understand, evaluate and take action on all their risks with a view to increasing the probability of their success and reducing the likelihood of their failure. (Source: The Institute of Risk Management).

Risk management therefore is essentially about identifying all the obstacles and weaknesses that exist within the Council. The approach is vital to ensuring that all elements of the organisation are challenged including decision making processes, working with partners, consultation processes, existing policies and procedures and also the effective use of assets – both staff and physical assets.

Once the obstacles have been identified, the next stage is to prioritise them to identify which are key to the Council moving forward. It is essential that steps are then taken to manage these effectively. The result is that major risks / obstacles that exist can be mitigated / controlled, providing the Council with a greater chance of being able to achieve objectives.

Included within this There should also be a consideration of the positive or 'opportunity' risk aspect. (For more information see Section 3, 'risk identification').

National drivers behind strategic risk management

- The CIPFA/SOLACE framework on Corporate Governance requires the Council
 to make a public assurance statement annually, on amongst other areas, the
 Council's risk management strategy, process and framework. The framework
 requires the Council to establish and maintain a systematic strategy, framework
 and processes for managing risk.
- Risk management is best practice in both the public and private sectors.
- The coalition government have announced a number of changes in order to reduce bureaucracy and central government burdens and to save money. At the heart of all these changes is the government's ambition to decentralise – to transfer power from central government to local authorities and the communities and individuals they represent.

This means that going forward local authorities are in control of their systems and processes to allow them to fulfil their commitment to deliver their priorities and to account to their local communities for their performance.

Therefore it is essential that, and without unnecessary layers of bureaucracy, the Council's business planning and performance management processes are relevant and fit for purpose to support the delivery of the council's three key priorities – People, Place and Prosperity. Within this framework it is important that risk management continues to be a key discipline that is carried out. The Council's risks are managed by having a clear strategy and effective arrangements in place, including appropriate resources to manage the risk of fraud and corruption and partnership working.

Local drivers behind strategic risk management

The Council's vision is:

'To improve the quality of people's lives and preserve all that is best in East Herts'.

The Council's Strategic Priorities:

'East Herts Council is here to help you. 'We are committed to the communities we serve; delivering good quality services that reflect local priorities and resources'.

In order to strive to meet the vision and priority, East Herts Council has recognised the need to further embed its risk management arrangements. The desired outcome is that risks associated with these objectives can be managed and the potential impact limited, providing greater assurance that the vision will be achieved.

Benefits of risk management

Implementation of risk management produces many benefits for the Council including:

- Improved efficiency of operations.
- Protection of budgets from unexpected financial losses.
- Protection of reputation.
- Reduced losses arising from accidents and illnesses.
- Increased chance of achieving strategic objectives as key risks are minimised.
- The possibility of becoming less risk averse because risks are understood.
- Improved performance (accountability and prioritisation) feeds into performance management framework.
- Better governance can be demonstrated to stakeholders.

Risk management, emergency planning and business continuity

There is a link between these areas; however it is vital for the success of risk management that the roles of each, and the linkages, are clearly understood. The diagram below sets out to demonstrate the differences.



Risk management is about trying to identify and manage those risks which are more than likely to occur and where the impact on our strategic objectives can be critical or even catastrophic.

Business continuity management is about trying to identify and put in place measures to protect priority functions against catastrophic risks that can stop the

Comment [MG2]: This table has been deleted but does not show on 'track changes'.

Council in its tracks. There are some areas of overlap e.g. IT infrastructure and resilience features as a strategic risk, but is a key element of business continuity plans.

Emergency planning is about managing those incidents that can impact on the community. In some cases they could also be a business continuity issue. E.g. a plane crash is an emergency. It becomes a continuity event when significant numbers of Council staff are required to provide support.

The Council recognises that there is a link between Risk Management, Business Continuity Management and Emergency Planning. Corporate Management Team leads in all three areas and strategies are developed concurrently.

Section 3 - Implementation of risk management

The risk management process

Implementing the strategy involves a 5-stage process as shown in figure 1.:

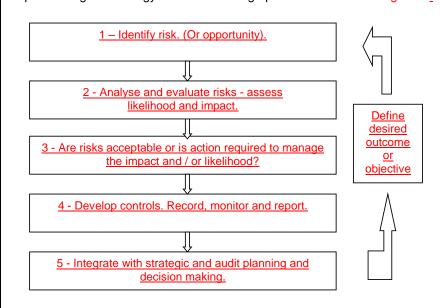
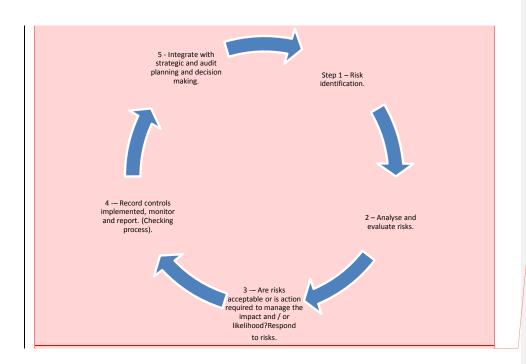


Figure 1: The risk management cycle



Comment [MG3]: This cycle will be deleted. Does not show in 'track changes'.

Stage 1 - Risk identification

What could prevent the Council, your service, project or partnership from meeting The first step is to identify the risks that could have an adverse affect or prevent key business objectives from being metor outcomes.—?—It is important that those involved with the process clearly understand what the Council wants to achieve in order to be able to identify the barriers.

When identifying risks it is important to remember that risk management is also about making the most of opportunities. For example:

- , e.g. mMaking bids for funding.
- , pPursuing beacon status or other awards.
- T, taking a national or regional lead on policy development.
- A 'spend to save' initiative.
- Tendering a large contract also provides an opportunity to reshape service delivery.

Using appendix 1 as a prompt, various techniques can then be used to begin to identify 'key' or 'significant' business risks including:

- A 'brainstorm' session
- Own (risk) experience
- Challenge within team meetings
- 'Strengths, Weakness, Opportunities and Threats' analysis or similar
- Experiences of others can we learn from others mistakes?
- Exchange of information / best practice with other authorities, organisations or partners.

The process for the identification of risk should be undertaken for projects (at the start of each project stage), partnerships, service planning and at a strategic / corporate level. Details of who contributes to these stages are explained further in the roles and responsibilities section.

Stage 2 – Analysing and evaluating the risks

The risk should be given a clear and concise title. A fuller description to include the root cause and the possible consequences of the risk if it occurs should be provided separately, e.g.

Title	Description
opportunity to self-fund well	The insurance contract is subject of a full OJEU tender process. A hard insurance market may result in premium increases. Increasing deductibles, without robust risk management practices, may leave the Council exposed to increased expense. However the tender, combined with other initiatives, present an opportunity to review self-insurance levels and establish an appropriate fund for well managed risks. The timeframe to handle liability claims below £25,000 will reduce from 111 days to 30 / 40 days in April 2013. Failure to meet deadlines could result in financial penalties.

It is prudent to combine risks from more than one service that share common causes and consequences, e.g. IT network performance, data protection, staff recruitment and retention, health and safety etc. The Operational Risk Management Group will review such risks and recommend controls and devise policy where possible. These corporate risks, and strategic risks with implications for all services, will feature on each Department Management Team risk register to keep services informed, and to ensure that comments and ideas are recorded and Council policy followed.

Following lidentification, and analysis and, risk scoring of Strategic Risk is agreed at Department Management Leadership Team and / or in a facilitated workshop.

Participants review risk scenarios, rate the potential likelihood of occurrence and the impact if it were to occur.

Operational risks are identified, scored and managed by Heads of Service with input from the Risk Assurance Officer.

A matrix is used to plot risks to illustrate priority. Impact and likelihood scoring criteria have been revised for 2013/14, and are detailed in the fellowing matrix below.

4 - HIGH			
>£300,000 and / or National criticism and / or Catastrophic fall in service quality			
3 – MEDIUM			
£150,000 to £300,000 and / or Regional criticism and / or Major long term fall in service quality	CONTINGENCY	CRITICAL	
2 – LOW			
£50,000 to £150,000 and / or Long term local media criticism and / or Minor long term or major short term fall in service quality	CONTROL	CAUTION	
1 - NEGLIGIBLE			
<£50,000 and / or Short term local media criticism and / or Short term fall in service quality			

	1 - RARE	2 - UNLIKELY	3 - POSSIBLE	4 - PROBABLE
IMPACT	The event could	The event could	The event is likely	The event is likely
	occur in	occur less	to occur within, or	to occur within a
	exceptional	frequently than	more than one in	year
LIKELIHOOD	circumstances	every three years	three years	

It is prudent to combine risks from more than one service that share common causes and consequences, e.g. IT network performance, data protection, staff recruitment and retention, health and safety etc. The Operational Risk Management Group will review such risks and recommend controls and devise policy where possible. These corporate themes are raised with each Head of Service quarterly.

Risk appetite

A material risk is deemed to be any risk rated higher than 2:2. This is the Council's 'risk appetite' i.e. the level of risk that it is prepared to tolerate <u>without need for ongoing monitoring or reporting</u>. Where a risk rating exceeds this 'control' area of tolerance, demonstrable evidence of how risks are being mitigated will be required, together with proposals for future controls.

Increasing pressure on public finances means that Local Authorities are obliged to have more appetite for risk. The Council cannot deliver everything it would ideally like to deliver and tough choices are necessary. The Council is therefore open to considering all delivery options, accepting increased levels of risk in order to secure the successful outcomes or rewards.

Risk management is essential in supporting innovation and moving from a 'risk averse' to a more 'risk aware' approach. An example is the acquisition of Old River Lane, Bishop's Stortford. The financial commitment is significant but the acquisition provides an opportunity to shape the town centre, and an additional income stream.

Stage 3 – Respond to risks

This is the process of turning 'knowing' into 'doing'. It is assessing whether to control, accept transfer or terminate the risk on an agreed 'risk appetite' or the opportunity presented. Risks may be able to be:—

Controlled - It may be possible to mitigate the risk by 'managing down' the likelihood, the impact or both. The control measures should, however, be commensurate with the potential frequency, severity and financial consequences of the risk event.

Accepted - Certain risks may have to be accepted as they form part of, or are inherent in, the activity. The important point is that these risks have been identified and are clearly understood.

Transferred - to another body or organisation i.e. insurance, contractual arrangements, outsourcing, partnerships etc.—. (Liabilities cannot be contracted out in their entirety. The Council will often retain overall accountability; and certainly for health and safety risks).

Terminated - By ending all or part of a particular service or project.

It is important to recognise that, in many cases, controls will already be in place. It is therefore necessary to look at these controls before considering further action. They may be out of date or not complied with.

The potential for controlling the risks identified will be addressed through service plans. Most risks are capable of being managed – either by managing down the likelihood or impact or both. Relatively few risks have to be transferred or terminated. These service plans will also identify the resources required to deliver the improvements, timescale and monitoring arrangements.

Existing controls of strategic risks, their adequacy, new mitigation measures and associated action planning information are all-to be recorded on the Strategic Rrisk register Register, including ownership of the risk and allocation of responsibility for each mitigating action. Full details of the risk mitigation measures that are to be delivered are likely to be recorded in the respective service plans and cross reference should be made to this in the risk registers.

Consideration should also be given here as to the 'Cost-Benefit' of each control weighed against the potential cost / impact of the risk occurring. N.B. 'cost / impact' here includes all aspects including financial, resourcing, but also reputational.

With effect from 2016/17 a target score will also be agreed at the beginning of each financial year to focus minds on risk mitigation and recording of actions planned and achieved.

The target score, planned and implemented controls will all be recorded on the risk register.

To reduce bureaucracy, a less formal approach is taken for operational (or service) risks. A discussion takes place quarterly between Heads of Service and the Risk Assurance Officer. Whilst a minimalist risk register operates, risks are not recorded on Covalent. Significant concerns are escalated to Leadership Team.

Stage 4 - Recording, monitoring and reporting

Corporate Management Leadership Team is responsible for ensuring that key strategic risks are managed.

The Operational Risk Management Group is responsible for ensuring that Councilwide operational risks are managed.

Directors and senior mangers<u>Heads of Service</u> are responsible for ensuring that key risks in their service are managed.

They will be reviewed and challenged at least quarterly at Department Management Team healthcheck meetings, with controls discussed and agreed. Council-wide operational and strategic risks_are also considered, with comments collated and reported to risk owners, Corporate Management Leadership Team or the Operational Risk Management Group as necessary.

Risk owners should update descriptions, scores, controls and planned controls on Covalent. See Appendix 3 for details and an example.

Corporate Management Team then undertakes a review of the strategic risk register and receives updates from Departmental Management Teams.

A comprehensive review of risk registers is undertaken annually by the Risk Assurance Officer, Head of Governance and Risk Management, and the Director of Neighbourhood Services following receipt of service plans. A comparison is made between risks identified in the service plan, existing risk registers, and new risks and trends identified elsewhere. Risk ratings will be moderated where necessary, and proposals for the following year's risk registers are then presented at Departmental Management Team meetings for amendment and final approval before addition to Covalent. (Proposed strategic risks are also presented to Corporate Management Team).

During the year new risks are likely to arise that have not previously been considered. The environment in which risks exist will change making some more critical, and others less important or obsolete. Risk registers and scores should be updated to reflect these changes, ensuring that risk registers and resulting mitigation measures are appropriate for the current service and corporate objectives. (Addition of new risks to and deletion of obsolete risks from Covalent can only be carried out by the Risk Assurance Officer).

If any risks require corporate ownership and management then they should be incorporated into the strategic risk register or referred to the Operational Risk Management Group, as appropriate.

Risks scored 'critical' (red) will be reviewed monthly at Departmental Management Team meetings, although Covalent need not be updated unless significant movement occurs.

Corporate ManagementLeadership - Team will report strategic risks to the Executive quarterly as part of the Corporate Healthcheck report. Audit and Governance Committee will receive four monitoring reports each year.

Stage 5 - Integrate with strategic and audit planning and decision making

In order to formalise and structure risk management at the Council, it is recognised that there are obvious and clear links between risk management and strategic planning; financial planning; policy making and review and performance management. The linkages are as follows:

• Risk management is a key part of the business planning process and therefore forms one of the key elements of the integrated Strategic and Financial Planning framework. Guidance on the framework is issued annually to senior managers with the publication of the Medium Term Financial Strategy. The guidance includes a section on risk assessments, which clearly explains that services need to recognise risk not just in relation to planned activity coming out of the service planning process (that supports the Council's priorities) but also in terms of the broader objectives of the service.

- Risks that have been identified that have a potential financial impact need to be
 considered as part of the preparation of the Medium Term Financial Plan
 (MTFP). Sources of funding the mitigation of risks, or the consequences of risk
 assessment need to be clearly identified within the MTFP, either as specific
 budget lines, provisions or use of general reserves. In addition, consideration of
 the Council's ability to withstand shocks from external factors is included as part
 of the Consolidated Budget report annually, which stress tests the MTFP and
 ability to withstand unexpected events.
- Financial Regulations apply to every Member and officer of the Council, and anyone acting on its behalf. As a modern Council, East Herts encourages innovation, providing this is within the framework laid down by the Financial Regulations, and the necessary risk assessment and approval safeguards are in place.
- The Council's performance management framework supports the monitoring
 of strategic and operational risks through the Council's Corporate Healthcheck
 Report. This encourages greater ownership and accountability by service heads
 in managing budgets, more prudent and focused management of service
 performance and risk management.
- The Council's Performance Development Review (PDR) scheme flows
 through the organisation from the Chief Executive to staff and ensures that all
 employees have clear accountabilities and objectives linked to those of the
 service and the Council.
- Annually the Shared Internal Audit Service review service plans and risk registers with the Governance and Risk Management team to produce the risk based audit plan for the next financial year.

The Council's performance management system – Covalent – also serves to strengthen the linkages. All performance and risk monitoring reports are generated from the system and the features of Covalent enable us to demonstrate the link between our corporate priorities, key activity, performance indicators and risks.

Section 4 - Risk management in projects and partnerships

Risk management needs to be a key part of the ongoing management of projects and partnerships, including shared services.

Project / Programme management

There is a <u>need for</u> consistent and robust approach to risk management <u>used</u> in projects, both at <u>Project the Initiation initiation</u> stage and throughout the entire project. This is based largely on the approach used across the authority. Written guidance is available on the intranet.

http://www.eastherts.gov.uk/intranet/media.jsp?mediaid=2438&filetype=PDF

The approach to risk management defined within this strategy document and within the project management system, is exactly the same.

Partnerships

Reduced funding is leading to more public services and community projects being delivered through partnerships between the public, private and third sectors. Partnerships are essential to deliver benefits to residents, businesses, and visitors, but they bring risks as well as opportunities.

The Council's 'Partnership Protocol', which is available on the intranet, sets out the expectations and requirements for managing risks associated with Partnership working.

In November 2015 Corporate Business Scrutiny Committee agreed that the Protocol be reviewed to focus on informal partnerships and collaborative arrangements where assurance processes were not in place.

It was concluded that the remaining (significant) partnerships are underpinned by formal mechanisms and agreements. A 'Partnership Map' maintained by the Head of Communications, Strategy and Policy has replaced a Partnership Register.

provides guidance on governance, including risk management, and the key processes that can be followed to establish and maintain effective partnerships. A review of these arrangements is undertaken annually and reported to Corporate Business Scrutiny Committee each November.

Section 5 - Roles and responsibilities

The following describes the roles and responsibilities that Members and officers have in introducing, embedding and owning the risk management process:

Members

Elected Members are responsible for governing the delivery of services to the local community. Members have a responsibility to understand the strategic risks that the Council faces, and will be made aware of how these risks are being managed through the annual strategic and service planning process, and through reports to the Executive and Audit and Governance Committee.

All Members will have the responsibility to consider the risks associated with the decisions they undertake and will be informed of these risks in the reports that are submitted to them. They cannot seek to avoid or delegate this overall responsibility, as it is key to their stewardship responsibilities. Awareness training will be available for all Members when specific training needs are identified.

All Members can access all strategic and operational risks on Covalent.

Full Council

Full Council recognises the importance of effective risk management and considers risk management issues when making decisions.

Executive

 To receive regular reports, covering implementation of the Council's risk management policy and strategy to determine whether corporate risks are being actively managed.

- Agree the Risk Management Policy and Strategy on an annual basis, or if significant changes require a revision.
- Agree / set the Council's risk appetite.
- Allocate sufficient resources to address top risks.
- The Portfolio Holder for Risk Management is recognised as the Member champion for Risk Management

Audit and Governance Committee

- To monitor the effective development and operation of risk management and corporate governance in the Council.
- Receive updates regarding the mitigation and control of strategic risks four times per year, and gain assurance that risk management is properly undertaken.

Corporate Business Scrutiny Committee

 To develop policy options and to review and scrutinise the policies of the Council including Risk Management.

Chief Executive and Corporate Management Team (CMT)Leadership Team

- To ensure that effective systems of Risk Management and internal control are in place to support the Corporate Governance of the Council.
- Take a leading role in identifying and managing the risks and opportunities to the Council and to set the example and standards for all staff. (The Director of Neighbourhood Services is recognised as the Officer Champion for Risk Management).
- Advise the Executive and Council on the risk management framework, policy, strategy and processes.
- Advise on the management of strategic and other significant risks.
- Ensure that the Policy and Strategy are communicated, understood and implemented by all Members, managers and staff and fully embedded in the Council's service planning and monitoring processes.
- Identify, analyse and profile high-level corporate and cross-cutting risks on a regular basis as outlined in the monitoring process. Refer key corporate and service specific operational risks to the Operational Risk Management Group for action.
- To report to Members on the management of strategic risks.
- Ensure that appropriate risk management skills training and awareness is provided to all Members and appropriate staff.

Directors

- To be individually responsible for proper monitoring of the relevant service risk registers and the embedding of risk management into the business and service planning of their relevant services.
- To ensure that the risk management process is part of all major projects, partnerships and change management initiatives.
- To ensure that all reports of a strategic nature written for Members include risk commentary.

- To ensure that new and existing risks are reviewed, challenged and updated quarterly at Department Management Team meetings. Critical risks will be reviewed monthly.
- Report quarterly to Corporate Management Team on the progress being undertaken to manage strategic risks.

Senior Managers Heads of Service

- To be individually responsible for proper monitoring of their service risks_register, and the embedding of risk management into the business and service planning of their relevant service.
- Be actively involved in the identification and assessment of service risks resulting in an up to date service risk register and matrix.
- Ensure that all reports of a strategic nature written for Members include risk commentary.
- To maintain the awareness of risks and the risk identification process.
- To implement the detail of the Risk Management Strategy and risk related corporate policies, e.g. Health and Safety, Data Protection.
- Share / exchange relevant information with colleagues in other service areas.

Operational Risk Management Group

- To review operational risks that affect numerous teams within the authority. Plan mitigation activity and produce procedures / policies.
- Provide <u>a summary of controls for the Council as a whole and feedback to services and committees where necessary.</u>
- To monitor health and safety compliance and land management standards.
- To act as a forum for the sharing of best practice.
- To consider concerns escalated by the Council's Safety Committee and update / act on risks as appropriate.
- <u>To support the maintenance of the Council's Business Continuity Plan including testing.</u>

Governance and Risk ManagementStrategic Finance and Property Team

- Co-ordinate risk management activities and prepare related reports for management and Members.
- Review and develop the Risk Management Strategy and processes.
- Facilitate risk discussion workshops and support and assist the maintenance of risk registers. Gain assurance on the process being conducted.
- Facilitate / arrange risk management training for staff and Members.
- To play an active role within the Operational Risk Management Group.
- Pass experiences of strategy implementation to the appropriate services.
- Maintain awareness of risks and feed them into the risk identification process.
- Support the risk based audit planning process.

Shared Internal Audit Service

 To provide assurance to the Council through an independent and objective opinion on the control environment comprising risk management, control procedures and governance.

- To provide an annual Audit Plan that is based on a reasonable evaluation of risk, and to provide an annual assurance statement to the Council based on work undertaken in the previous year.
- Review and challenge the effectiveness of the risk management framework.

Timescale a Comment [MG4]: Link between partnerships and CBSC also added Meeting document type Corporate Business When appropriate Scrutiny Committee and full Council **Updated** Risk Management Strategy Audit and Quarterly Executive <u>Governance</u> Committee Strategic Risk Register only, although all Members can view all risks on Covalent. Shared Projects / Internal Audit Corporate Quarterly gementLeadersh programmes Service Operational and sstrategic risk Operational registers and operational risk **Departmental** Risk discussion Management Management Group Annual

Partnerships

The following table shows the risk management reporting arrangements:

Section 6 - Conclusion

Service planning

This strategy will set the foundation for integrating risk-Risk management is integrated into the Council's culture. It will also-The Strategy formalises athe process to be applied across the Council to ensure consistency and clarity in understanding the role and benefits of strategic risk management.

The reporting and escalation of risks from Services to Corporate

ManagementLeadership Team should interlocks with the existing quarterly
healthcheck for performance reporting, through Covalent. The intention being that the
management of risks is incorporated into business plans so that by reporting on
performance naturally reports progress on the mitigation of risks.

Service plans / review of Partnership registers

Appendix 1 – Categories of risk

Risk	Definition	Examples
Political	Associated with the failure to deliver either	New political arrangements.
	local or central government policy or meet	Political personalities.
	the local administration's manifest	Political make-up.
	commitment.	Policy and decisions.
Economic	Affecting the ability of the Council to meet	Financial climate.
	its financial commitments. These include	Cost of living.
	internal budgetary pressures, external	Changes in interest rates.
	macro level economic changes or	Inflation.
	consequences of proposed investment	Poverty indicators.
	decisions.	
Social	Relating to the effects of changes in	Ageing population.
	demographic, residential or socio-economic	Health statistics.
	trends on the Council's ability to meet its	Crime rates.
	objectives.	
Technological	Associated with the capacity of the Council	E-Gov
	to deal with the pace/scale of technological	IT infrastructure.
	change, or its ability to use technology to	Staff/client needs.
	address changing demands. They may	Security standards.
	also include the consequences of internal	
	technological failures on the Council's	
	ability to deliver its objectives.	
Legislative	Associated with current or potential	Human rights.
	changes in national or European law.	TUPE regulations
Continuity /	Ability to deliver services.	Loss of key staff, building,
service delivery		documents or IT.
Environmental	Relating to the environmental	Land use.
	consequences of progressing the Council's	Recycling.
	strategic objectives.	Pollution.
		Extreme weather events.
Competitive	Affecting the competitiveness of the service	Fail to win quality
	(in terms of cost or quality) and/or its ability	accreditation.
	to deliver best value.	Alternative service
		providers.
Customer/	Associated with failure to meet the current	Managing expectations.
Citizen	and changing needs and expectations of	Extent of consultation.
	customers and citizens.	0. "
Managerial/	Associated with the particular nature of	Staff restructure.
Professional	each profession, internal protocols and	Internal capacity.
	managerial abilities.	
Financial	Associated with financial planning and	Income streams.
	control.	Budget overspends.
		Level of Council tax.
11	Deleted to manifely by the Children	Level of reserves.
Legal	Related to possible breaches of legislation.	Client brings legal
Dente en 11 /	Associated with fallow f	challenge.
Partnership/	Associated with failure of contractors and	Contractor fails to deliver.
Contractual	partnership arrangements to deliver	Partnership agencies do not
	services or products to the agreed cost and	have common goals.
Discolaria	specification.	Shared services.
Physical	Related to fire, security, accident	Land / facility management.
	prevention and health and safety.	Health and safety risks.

	Use of equipment	

Appendix 2 - Risk Register

Part A – risks related to Section 3a and b of the service planning template.

Risk No.	Risk title and detail (limit to 255 characters)	Consequence	Impact (1 to 4)	Likelihood (1 to 4)	Risk owner
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Appendix 3 - Covalent screen

Risks can be mapped to your home page, or also viewed by clicking 'maps' - 'risk central'.

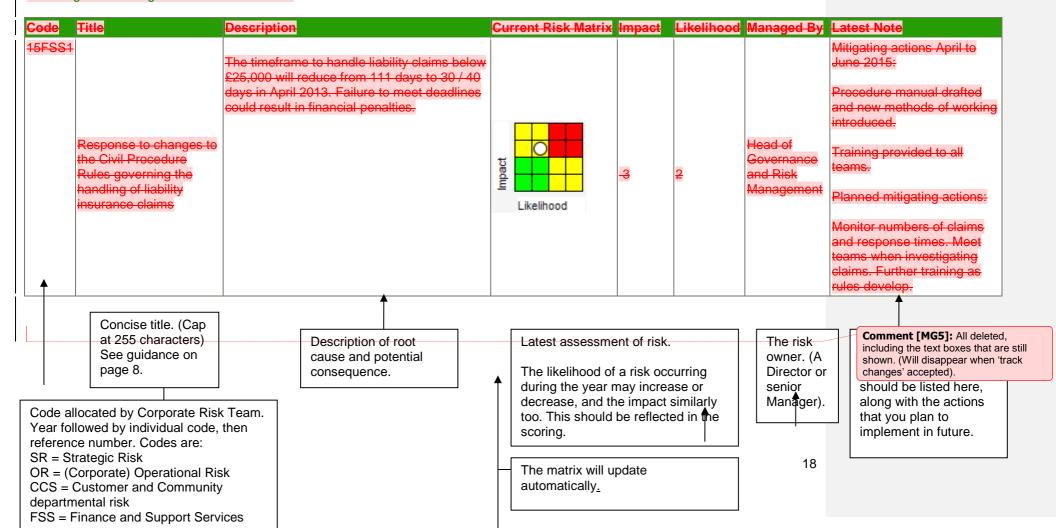
To update risk descriptions click on 'Notes and history' - 'add status update'. (To see history click 'show all').

To change the scoring click 'new assessment'.

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Essential Reference Paper 'C'



Risk Management Strategy

2016/17 version 2. October 2016.

CMT
Audit Committee
Audit and Governance Committee

23 February 2016 16 March 2016 23 November 2016

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Section 1 - Context

Policy statement

Risk is present in everything that we do, so it is our policy to identify, assess and manage the key areas of risk.

East Herts Council recognises that risk management is an essential element of good governance and must be embedded in the culture of the Authority. This includes the strategic decision making process, service planning, project management, partnerships, audit, procurement and contracts. It supports informed decision making thereby enabling opportunities to be exploited, or action to be taken to mitigate or manage risk to an acceptable level.

In order to obtain a clear picture of the risks that threaten the Council's ability to achieve its objectives, it is important that the Council determines its 'risk appetite' – the level of risk that is considered acceptable for the organisation to be exposed to. The Risk Management Strategy reflects our 'risk appetite', the size of the Authority, the nature of our operations and the drive to reduce bureaucracy.

The processes in place should provide assurance to all stakeholders that the identification and management of risk plays a key role in the delivery of our strategy and related objectives.

The objectives of this strategy are:

- Define what risk management is about and what drives risk management within the Council.
- Set out the benefits of risk management and the strategic approach to risk management.
- Outline how the strategy will be implemented.
- Identify the relevant roles and responsibilities for risk management within the Council.
- Formalise the risk management process across the Council.

Approval, Communication, Implementation and Review of the Risk Management Strategy

The Risk Management Strategy is on the intranet, and is specifically issued to:

- The Executive
- Audit and Governance Committee
- Leadership Team

Training is provided to those listed above, members of staff who prepare committee reports and / or those who should consider risk in the roles that they perform.

The strategy is reviewed each year, and following key changes in central or local policies. Risk management is also subject to frequent audit by the Shared Internal Audit Service (SIAS).

Section 2 - What is risk management and why do we do it?

Risk Management can be defined as:

The process which aims to help organisations understand, evaluate and take action on all their risks with a view to increasing the probability of their success and reducing the likelihood of their failure. (Source: The Institute of Risk Management).

Risk management therefore is essentially about identifying all the obstacles and weaknesses that exist within the Council. The approach is vital to ensuring that all elements of the organisation are challenged including decision making processes, working with partners, consultation processes, existing policies and procedures and also the effective use of assets – both staff and physical assets.

Once the obstacles have been identified, the next stage is to prioritise them to identify which are key to the Council moving forward. It is essential that steps are then taken to manage these effectively. The result is that major risks / obstacles that exist can be mitigated / controlled, providing the Council with a greater chance of being able to achieve objectives.

There should also be a consideration of the positive or 'opportunity' risk aspect. (For more information see Section 3, 'risk identification').

National drivers behind strategic risk management

- The CIPFA/SOLACE framework on Corporate Governance requires the Council
 to make a public assurance statement annually, on amongst other areas, the
 Council's risk management strategy, process and framework. The framework
 requires the Council to establish and maintain a systematic strategy, framework
 and processes for managing risk.
- Risk management is best practice in both the public and private sectors.

This means that going forward local authorities are in control of their systems and processes to allow them to fulfil their commitment to deliver their priorities and to account to their local communities for their performance.

Therefore it is essential that, and without unnecessary layers of bureaucracy, the Council's business planning and performance management processes are relevant and fit for purpose to support the delivery of the council's three key priorities – People, Place and Prosperity. Within this framework it is important that risk management continues to be a key discipline that is carried out.

Local drivers behind strategic risk management

The Council's vision is:

'To improve the quality of people's lives and preserve all that is best in East Herts'.

The Council's Strategic Priorities:

'East Herts Council is here to help you. 'We are committed to the communities we serve; delivering good quality services that reflect local priorities and resources'.

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In order to strive to meet the vision and priority, East Herts Council has recognised the need to further embed its risk management arrangements. The desired outcome is that risks associated with these objectives can be managed and the potential impact limited, providing greater assurance that the vision will be achieved.

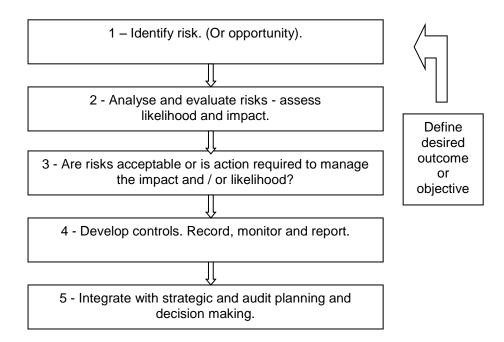
Benefits of risk management

Implementation of risk management produces many benefits for the Council including:

- Improved efficiency of operations.
- Protection of budgets from unexpected financial losses.
- Protection of reputation.
- Reduced losses arising from accidents and illnesses.
- Increased chance of achieving strategic objectives as key risks are minimised.
- The possibility of becoming less risk averse because risks are understood.
- Improved performance (accountability and prioritisation) feeds into performance management framework.
- Better governance can be demonstrated to stakeholders.

<u>Section 3 - Implementation of risk management</u>

Implementing the strategy involves a 5-stage process:



Stage 1 - Risk identification

What could prevent the Council, your service, project or partnership from meeting objectives or outcomes? It is important that those involved with the process clearly understand what the Council wants to achieve in order to be able to identify the barriers.

When identifying risks it is important to remember that risk management is also about making the most of opportunities. For example:

- Making bids for funding.
- Pursuing beacon status or other awards.
- Taking a national or regional lead on policy development.
- Savings that may be achievable if a project goes to plan.
- A 'spend to save' initiative.
- Tendering a large contract also provides an opportunity to reshape service delivery.

Using appendix 1 as a prompt, various techniques can then be used to begin to identify risks including:

- A 'brainstorm' session
- Own (risk) experience
- Challenge within team meetings
- 'Strengths, Weakness, Opportunities and Threats' analysis or similar
- Experiences of others can we learn from others mistakes?
- Exchange of information / best practice with other authorities, organisations or partners.

The process for the identification of risk should be undertaken for projects (at the start of each project stage), partnerships, service planning and at a strategic / corporate level. Details of who contributes to these stages are explained further in the roles and responsibilities section.

Stage 2 – Analysing and evaluating the risks

The risk should be given a clear and concise title. A fuller description to include the root cause and the possible consequences of the risk if it occurs should be provided separately, e.g.

Title	Description
The tender, and establishment of the	The insurance contract is subject of a full OJEU tender process. A hard insurance market may result in premium increases. Increasing deductibles, without robust risk management practices, may leave the Council exposed to increased expense. However the tender, combined with other initiatives, present an opportunity to review self-insurance levels and establish an appropriate fund for well managed risks.

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Identification, analysis and scoring of Strategic Risk is agreed at Leadership Team. Participants review risk scenarios, rate the potential likelihood of occurrence and the impact if it were to occur.

Operational risks are identified, scored and managed by Heads of Service with input from the Risk Assurance Officer.

A matrix is used to plot risks to illustrate priority. Impact and likelihood scoring criteria are detailed in the matrix below.

4 - HIGH				
>£300,000 and / or National criticism and / or Catastrophic fall in service quality				
3 – MEDIUM				
£150,000 to £300,000 and / or Regional criticism and / or Major long term fall in service quality		CONTINGENCY	CRITICAL	
2 – LOW				
£50,000 to £150,000 and / or Long term local media criticism and / or Minor long term or major short term fall in service quality		CONTROL	CAUTION	
1 - NEGLIGIBLE				
<pre><£50,000 and / or Short term local media criticism and / or Short term fall in service quality</pre>				
IMPACT	1 - RARE	2 - UNLIKELY	3 - POSSIBLE	4 - PROBABLE
LIKELIHOOD	The event could occur in exceptional circumstances	The event could occur less frequently than every three years	The event is likely to occur within, or more than one in three years	The event is likely to occur within a year
LINELIHOOD				

It is prudent to combine risks from more than one service that share common causes and consequences, e.g. IT network performance, data protection, staff recruitment and retention, health and safety etc. The Operational Risk Management Group will review such risks and recommend controls and devise policy where possible. These corporate themes are raised with each Head of Service quarterly.

Risk appetite

A material risk is deemed to be any risk rated higher than 2:2. This is the Council's 'risk appetite' i.e. the level of risk that it is prepared to tolerate without need for ongoing monitoring or reporting. Where a risk rating exceeds this 'control' area of tolerance, demonstrable evidence of how risks are being mitigated will be required, together with proposals for future controls.

Increasing pressure on public finances means that Local Authorities are obliged to have more appetite for risk. The Council cannot deliver everything it would ideally like to deliver and tough choices are necessary. The Council is therefore open to considering all delivery options, accepting increased levels of risk in order to secure the successful outcomes or rewards.

Risk management is essential in supporting innovation and moving from a 'risk averse' to a more 'risk aware' approach. An example is the acquisition of Old River Lane, Bishop's Stortford. The financial commitment is significant but the acquisition provides an opportunity to shape the town centre, and an additional income stream.

Stage 3 – Respond to risks

This is the process of turning 'knowing' into 'doing'. It is assessing whether to control, accept transfer or terminate the risk or the opportunity presented. Risks may be able to be:

Controlled - It may be possible to mitigate the risk by 'managing down' the likelihood, the impact or both. The control measures should, however, be commensurate with the potential frequency, severity and financial consequences of the risk event.

Accepted - Certain risks may have to be accepted as they form part of, or are inherent in, the activity. The important point is that these risks have been identified and are clearly understood.

Transferred - to another body or organisation i.e. insurance, contractual arrangements, outsourcing, partnerships etc. (Liabilities cannot be contracted out in their entirety. The Council will often retain overall accountability; and certainly for health and safety risks).

Terminated - By ending all or part of a particular service or project.

It is important to recognise that, in many cases, controls will already be in place. It is therefore necessary to look at these controls before considering further action. They may be out of date or not complied with.

The potential for controlling the risks identified will be addressed through service plans. Most risks are capable of being managed – either by managing down the likelihood or impact or both. Relatively few risks have to be transferred or terminated. These service plans will also identify the resources required to deliver the improvements, timescale and monitoring arrangements.

Existing controls of strategic risks, their adequacy, new mitigation measures and associated action planning information are to be recorded on the Strategic Risk Register, including ownership of the risk and allocation of responsibility for each mitigating action.

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With effect from 2016/17 a target score will also be agreed at the beginning of each financial year to focus minds on risk mitigation and recording of actions planned and achieved.

The target score, planned and implemented controls will all be recorded on the risk register.

To reduce bureaucracy, a less formal approach is taken for operational (or service) risks. A discussion takes place quarterly between Heads of Service and the Risk Assurance Officer. Whilst a minimalist risk register operates, risks are not recorded on Covalent. Significant concerns are escalated to Leadership Team.

Stage 4 – Recording, monitoring and reporting

Leadership Team is responsible for ensuring that strategic risks are managed.

The Operational Risk Management Group is responsible for ensuring that Councilwide operational risks are managed.

Heads of Service are responsible for ensuring that key risks in their service are managed.

Council-wide operational risks are also considered, with comments collated and reported to risk owners, Leadership Team or the Operational Risk Management Group as necessary.

Leadership Team will report strategic risks to the Executive quarterly as part of the Corporate Healthcheck report. Audit and Governance Committee will receive four monitoring reports each year.

Stage 5 - Integrate with strategic and audit planning and decision making

In order to formalise and structure risk management at the Council, it is recognised that there are obvious and clear links between risk management and strategic planning; financial planning; policy making and review and performance management. The linkages are as follows:

- Risk management is a key part of the business planning process and therefore
 forms one of the key elements of the integrated Strategic and Financial
 Planning framework. Guidance on the framework is issued annually to senior
 managers with the publication of the Medium Term Financial Strategy. The
 guidance includes a section on risk assessments, which clearly explains that
 services need to recognise risk not just in relation to planned activity coming out
 of the service planning process (that supports the Council's priorities) but also in
 terms of the broader objectives of the service.
- Risks that have been identified that have a potential financial impact need to be considered as part of the preparation of the Medium Term Financial Plan (MTFP). Sources of funding the mitigation of risks, or the consequences of risk assessment need to be clearly identified within the MTFP, either as specific

budget lines, provisions or use of general reserves. In addition, consideration of the Council's ability to withstand shocks from external factors is included as part of the Consolidated Budget report annually, which stress tests the MTFP and ability to withstand unexpected events.

- Financial Regulations apply to every Member and officer of the Council, and anyone acting on its behalf. East Herts encourages innovation, providing this is within the framework laid down by the Financial Regulations, and the necessary risk assessment and approval safeguards are in place.
- The Council's performance management framework supports the monitoring
 of strategic risks through the Council's Corporate Healthcheck Report. This
 encourages greater ownership and accountability by service heads in managing
 budgets, more prudent and focused management of service performance and
 risk management.
- The Council's Performance Development Review (PDR) scheme flows through the organisation from the Chief Executive to staff and ensures that all employees have clear accountabilities and objectives linked to those of the service and the Council.

Section 4 - Risk management in projects and partnerships

Risk management needs to be a key part of the ongoing management of projects and partnerships, including shared services.

Project / Programme management

There is a need for consistent and robust approach to risk management in projects, both at the initiation stage and throughout the entire project. This is based largely on the approach used across the authority. Written guidance is available on the intranet. http://www.eastherts.gov.uk/intranet/media.jsp?mediaid=2438&filetype=PDF

Partnerships

Reduced funding is leading to more public services and community projects being delivered through partnerships between the public, private and third sectors. Partnerships are essential to deliver benefits to residents, businesses, and visitors, but they bring risks as well as opportunities.

The Council's 'Partnership Protocol' sets out the expectations and requirements for managing risks associated with Partnership working.

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It was concluded that the remaining (significant) partnerships are underpinned by formal mechanisms and agreements. A 'Partnership Map' maintained by the Head of Communications, Strategy and Policy has replaced a Partnership Register.

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The following describes the roles and responsibilities that Members and officers have in introducing, embedding and owning the risk management process:

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Elected Members are responsible for governing the delivery of services to the local community. Members have a responsibility to understand the strategic risks that the Council faces, and will be made aware of how these risks are being managed through the annual strategic and service planning process, and through reports to the Executive and Audit and Governance Committee.

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All Members can access all strategic risks on Covalent.

Full Council

Full Council recognises the importance of effective risk management and considers risk management issues when making decisions.

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- To receive regular reports, covering implementation of the Council's risk management policy and strategy to determine whether corporate risks are being actively managed.
- Agree the Risk Management Policy and Strategy on an annual basis, or if significant changes require a revision.
- Agree / set the Council's risk appetite.
- Allocate sufficient resources to address top risks.
- The Portfolio Holder for Risk Management is recognised as the Member champion for Risk Management

Audit and Governance Committee

- To monitor the effective development and operation of risk management and corporate governance in the Council.
- Receive updates regarding the mitigation and control of strategic risks four times per year, and gain assurance that risk management is properly undertaken.

Corporate Business Scrutiny Committee

 To develop policy options and to review and scrutinise the policies of the Council including Risk Management.

Chief Executive and Leadership Team

- To ensure that effective systems of Risk Management and internal control are in place to support the Corporate Governance of the Council.
- Take a leading role in identifying and managing the risks and opportunities to the Council and to set the example and standards for all staff. Advise the Executive and Council on the risk management framework, policy, strategy and processes.
- Advise on the management of strategic and other significant risks.
- Ensure that the Policy and Strategy are communicated, understood and implemented by all Members, managers and staff and fully embedded in the Council's service planning and monitoring processes.
- Identify, analyse and profile high-level corporate and cross-cutting risks on a regular basis as outlined in the monitoring process. Refer key corporate and service specific operational risks to the Operational Risk Management Group for action.
- To report to Members on the management of strategic risks.
- Ensure that appropriate risk management skills training and awareness is provided to all Members and appropriate staff.

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 To ensure that the risk management process is part of all major projects, partnerships and change management initiatives.

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- To be individually responsible for their service risks.
- Be actively involved in the identification and assessment of service risks.
- Ensure that all reports of a strategic nature written for Members include risk commentary.
- To maintain the awareness of risks and the risk identification process.
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- Share / exchange relevant information with colleagues in other service areas.

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- To review operational risks that affect numerous teams within the authority. Plan mitigation activity and produce procedures / policies.
- Provide a summary of controls for the Council as a whole and feedback to services and committees where necessary.
- To monitor health and safety compliance and land management standards.
- To act as a forum for the sharing of best practice.
- To consider concerns escalated by the Council's Safety Committee and update / act on risks as appropriate.
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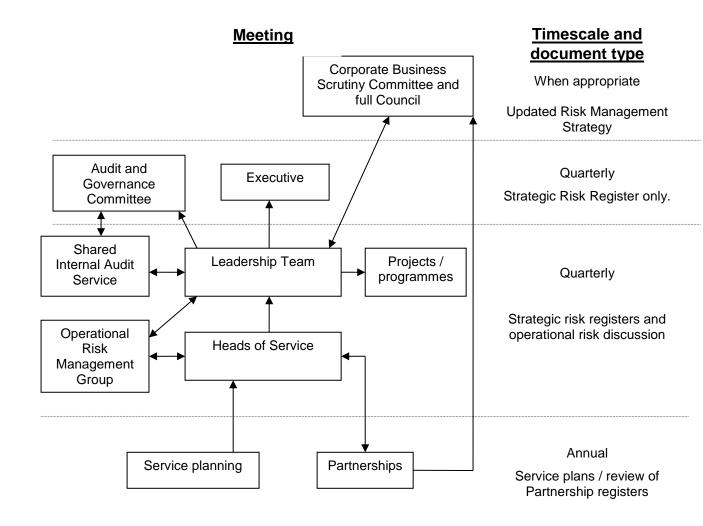
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- Review and develop the Risk Management Strategy and processes.
- Facilitate risk discussion workshops and support and assist the maintenance of risk registers. Gain assurance on the process being conducted.
- Facilitate / arrange risk management training for staff and Members.
- To play an active role within the Operational Risk Management Group.
- Pass experiences of strategy implementation to the appropriate services.
- Maintain awareness of risks and feed them into the risk identification process.
- Support the risk based audit planning process.

Shared Internal Audit Service

- To provide assurance to the Council through an independent and objective opinion on the control environment comprising risk management, control procedures and governance.
- To provide an annual Audit Plan that is based on a reasonable evaluation of risk, and to provide an annual assurance statement to the Council based on work undertaken in the previous year.
- Review and challenge the effectiveness of the risk management framework.

The following table shows the risk management reporting arrangements:



Section 6 - Conclusion

Risk management is integrated into the Council's culture. The Strategy formalises the process to be applied across the Council to ensure consistency and clarity in understanding the role and benefits of strategic risk management.

The reporting and escalation of risks from Services to Leadership Team interlocks with the existing quarterly healthcheck.

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Appendix 1 - Categories of risk

Risk	Definition	Examples
Political	Associated with the local or central government policy or the local administration's manifest commitment.	New political arrangements. Political personalities. Political make-up. Policy and decisions.
Economic	Affecting the ability of the Council to meet its financial commitments. These include internal budgetary pressures, external macro level economic changes or consequences of proposed investment decisions.	Financial climate. Cost of living. Changes in interest rates. Inflation. Poverty indicators.
Social	Relating to the effects of changes in demographic, residential or socio-economic trends on the Council's ability to meet its objectives.	Ageing population. Health statistics. Crime rates.
Technological	Associated with the capacity of the Council to deal with the pace/scale of technological change, or its ability to use technology to address changing demands. They may also include the consequences of internal technological failures on the Council's ability to deliver its objectives.	E-Gov. IT infrastructure. Staff/client needs. Security standards.
Legislative	Associated with current or potential changes in national or European law.	Human rights. TUPE regulations
Continuity / service delivery	Ability to deliver services.	Loss of key staff, building, documents or IT.
Environmental	Relating to the environmental consequences of progressing the Council's strategic objectives.	Land use. Recycling. Pollution. Extreme weather events.
Competitive	Affecting the competitiveness of the service (in terms of cost or quality) and/or its ability to deliver best value.	Fail to win quality accreditation. Alternative service providers.
Customer/ Citizen	Associated with failure to meet the current and changing needs and expectations of customers and citizens.	Managing expectations. Extent of consultation.
Managerial/ Professional	Associated with the particular nature of each profession, internal protocols and managerial abilities.	Staff restructure. Internal capacity.
Financial	Associated with financial planning and control.	Income streams. Budget overspends. Level of Council tax. Level of reserves.
Legal	Related to possible breaches of legislation.	Client brings legal challenge.
Partnership/ Contractual	Associated with failure of contractors and partnership arrangements to deliver services or products to the agreed cost and specification.	Contractor fails to deliver. Partnership agencies do not have common goals.

		Shared services.
Physical	Related to fire, security, accident prevention and	Land / facility management.
	health and safety.	Health and safety risks.

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Agenda Item 12

EAST HERTS COUNCIL

AUDIT AND GOVERNANCE COMMITTEE - 23 NOVEMBER 2016

REPORT BY THE EXECUTIVE MEMBER FOR FINANCE AND SUPPORT SERVICES

RISK MANAGEMENT MONITORING REPORT (JULY TO SEPTEMBER 2016)

WARD(S) AFFECTED: ALL		

Purpose/Summary of Report

 This report relates to action taken to mitigate and control strategic risks in the period July to September 2016.

That: (A) The risk management controls implemented be approved.

- 1.0 Background
- 1.1 The Strategic Risk Register was last considered by Audit and Governance Committee on 21 September 2016. (Period April to June 2016). The content of the register has been updated with controls implemented between July and September 2016 recorded as detailed in **Essential Reference Paper 'B'**.
- 2.0 Report
- 2.1 Risk management can be defined as: the process which aims to help organisations understand, evaluate and take action on all their risks with a view to increasing the probability of their success and reducing the likelihood of their failure. (Source: The Institute of Risk Management).
- 2.2 Managing threats and opportunities helps to create an environment of "no surprises" and the Authority is in a stronger

position to deliver services in accordance with corporate priorities. By managing opportunities, it is better positioned to provide continuous improvement in its services and better value for money.

2.3 The system of rating listed below applies to the 2016/17 financial year:

Rating the potential impact if the risk was to occur using the following scores

- 4 **High** Greater than £300,000 and / or national criticism and / or catastrophic fall in service quality
- 3 **Medium** £150,000 to £300,000 and / or regional criticism and / or major long term fall in service quality
- 2 **Low** £50,000 to £150,000 and / or long term local media criticism and / or minor long term or major short term fall in service quality
- 1 **Negligible** Below £50,000 and / or short term local media criticism and / or short term fall in service quality

Rating the likelihood of occurrence using the following scores

- 4 **Probable** The event is likely to occur within a year
- 3 **Possible** The event is likely to occur within, or more than one in three years
- 2 **Unlikely** The event could occur less frequently than every three years
- 1 Rare The event could occur in exceptional circumstances

These scores are further assessed to classify whether risks are considered to be critical, caution, contingency or control.

- 2.4 Target scores have also been included with effect from 1st April 2016. These demonstrate where Officers believe the likelihood and / or impact can be mitigated.
- 2.5 Controls implemented during the period July to September 2016 have been recorded, and scores amended as necessary as detailed within **Essential Reference Paper B**.
- 2.6 In quarter two the current likelihood scores for SR4 and SR7 have both reduced from 3 to 2, and the current likelihood score for SR9 has reduced from 4 to 2. These changes are due to the controls implemented.

- 2.7 Target likelihood scores have been reduced for SR9 from 3 to 2, SR12 from 2 to 1 and for SR15 from 3 to 2.
- 2.8 The Executive will consider the Strategic Risk Register on 6 December 2016.
- 2.9 All strategic risks can be viewed on Covalent. www.covalentcpm.com/eastherts
- 3.0 Implications/Consultations
- 3.1 Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper** 'A'.

Background Papers

2016 /17 Quarter 1 risk management monitoring report to Audit and Governance Committee 21 September 2016

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Executive Member for Finance and Support

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ESSENTIAL REFERENCE PAPER 'A'

IMPLICATIONS/CONSULTATIONS

Contribution to the Council's Corporate Priorities/ Objectives:	Priority 1 – Improve the health and wellbeing of our communities Priority 2 – Enhance the quality of people's lives Priority 3 – Enable a flourishing local economy
Consultation:	There are no specific consultation implications arising directly from this report.
Legal:	There are no specific legal implications arising directly from this report.
Financial:	There are no specific financial implications arising directly from this report.
Human Resource:	There are no specific human resource implications arising directly from this report.
Risk Management:	There are no additional risk management implications to those already contained in this report. However, it should be noted that if East Herts did not have a risk management monitoring process, the Authority would be seen to be not managing risks appropriately, which would have a significant negative impact on recommendations made by the External Auditors through the Annual Audit Letter.
Health and wellbeing – issues and impacts:	There are no specific health and wellbeing implications arising directly from this report.



Strategic Risk Register - Quarter 2 - July to September 2016

Essential Reference Paper 'B'

Code 16SR	Title	Description	Risk Matrix	Impact	Likelihood	Target Impact	Target Likelihood	Managed By	Controls introduced in 2016/17 quarter one, and future controls planned
	Risk of significant deviation from plan in terms of funding. This is predominately a risk of a significant reduction but a significant increase could also cause risks to materialise.	There is uncertainty around future funding, both from Government and other areas such as income from commodities markets for recycled materials, parking charges. There is some clarity on 2016/17 but little beyond then, particularly with the potential impact of leaving the EU and on trade relations. There are cost pressures combined with an increased awareness and scrutiny of financial position.	Likelihood	3	3	3	3	Philip Gregory	July to September 2016: The referendum vote to exit the EU has resulted in continued uncertainty. DCLG have indicated that they expect 100% Business Rates Retention to launch from April 2019. The funding situation is being carefully monitored. Settlement to be announced on 23 November 2016.
	Business rate income significantly reduced from planned anticipated level (and current levels).	Appetite and ability as a Council to influence economic development. Neighbouring authorities reducing rates. Revaluation and appeals. (Maximum liability circa £10m if all appeals were granted). Inability to influence economic regeneration. Economic vitality.	Likelihood	4	4	4	3	Philip Gregory	July to September 2016: Consultation for 100% business rate retention closed. DCLG to review fair funding - EHDC could benefit but could lose out.
	Risk of not having capacity / capability and flexibility to continue to deliver service levels over time.	There are challenges to ensure the Council is fit for the future, in terms of workforce skills, capacity and flexibility. Also about being fleet of foot and responsiveness.	Likelihood	3	3	3	2	Emma Freeman	July to September 2016: A number of services are restructuring in line with service planning and reviewing whether they are fit for purpose in terms of capacity and capability.
	Risk that supplier / contractor or key third sector partner fails or fails to deliver.	A number of key services are delivered through major contracts, both directly and in consortia. This is both through private sector supply chains and in conjunction with the voluntary and third sector.	Likelihood	3	2	3	1	All Heads of Service	July to September 2016: No concerns reported with any major contracts or shared service. Evaluation team and timetable established for refuse contract.

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2	je 1	alternative service delivery models does not deliver benefits and returns.	Moving more towards other delivery models in future with public sector partners. This is part of the wider context of the changing role of Local Government moving forward. Potential for lack of consistent political buy-in by all partners resulting in considerable effort without benefit. There is also a challenging skill set for managers due to the complexity.		3	2	2	2	Heads of Service	July to September 2016: Hertfordshire Building Control company commenced trading. Managed through a programme board to which Helen Standen has been appointed. Staff transferred in August 2016. New MD appointed. Housing Improvement Agency in consultation phase. Waste shared service being delivered with North Hertfordshire District Council. Timetable is slipping but remains achievable.
-		to breach. The potential disclosure of personal data inappropriately.	The Council handles a large amount of information and data which if not managed properly could be compromised. This could be perhaps through carelessness or hacking and security of the information could be compromised. Failure to comply with information governance principles. Action may be taken by the ICO. Individuals may suffer if their personal data, particularly sensitive personal data is disclosed.	Died Likelihood	3	2	3	1		July to September 2016: No reportable data breaches. 'Bob's Business' on line training for staff continues. Annual data protection review report submitted to July 2016 Corporate Business Scrutiny Committee. Joint IT security group established and met for first time in September 2016. Terms of reference and initial actions agreed.

6	Impact of Housing and Planning Act.	The key potential impacts are: • Introduction of Starter Homes as a form of affordable housing, with nationally prescribed percentages to be delivered through the planning process, is likely to reduce the supply of new affordable rented homes thus reducing housing options for those on no / low incomes. This could place increased pressure on existing housing stock and potentially increase homeless approaches to the Council, leading to higher workloads • The opening up of the planning application assessment process to third parties could see workloads/income drop for the Council and its influence in decision making reduced. Potential for significant impact on staff resources, income and the ability to support direct and back office services. • Provisions for the Government to determine district plans where local authorities have not done so within certain time limits could erode the Council's reputation and ability to shape local development. • Further provisions for flexibilities with regard to fee levels and self setting of fees if the Council continues to operate established performance levels.	Likelihood	3	3	3	2	Jonathan Geall and Kevin Steptoe	July to September 2016: The Housing Service is closely monitoring levels of demand. Work has commenced to investigate the viability of a Council-owned housing company which could contribute to local supply of housing in all tenures. District Plan (pre-submission version) approved through Committee process in September 2016 for publication in November.
7	Development of a District Plan that is acceptable to the community and the planning inspectorate.	Risk of not being able to agree plan in timeframe meaning: Increased costs, Lack of effective development management, Cannot bid for funding for infrastructure, lost opportunity, open to challenge in meantime, legal / reputational / political issues. Impact on New Homes Bonus.	Likelihood	3	2	3	2	Kevin Steptoe	July to September 2016: District Plan (presubmission version) approved through Committee process in September 2016 for publication in November. Represents significant step forward in preparation of final plan.
8	at strategic sites (Welwyn Garden City, Bishop's Stortford) - need to ensure good quality developments securing all necessary infrastructure.	Ambitions not achieved. Ability of building industry to deliver, including contribution for infrastructure. Poor environment. Loss of development opportunity. Reputational risk.	Likelihood	4	3	4	1	Kevin Steptoe	July to September 2016: Some land owners / promoters of significant sites are starting to engage with the development management process. Appropriate advice and support engaged at all relevant stages in the development process to ensure that quality development is achieved.

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9 - 40 04-	Failure to deliver Digital East Herts.	Risk that services are not provided across multiple channels to improve the customer experience and realise efficiency gains. Step change to digital basis for service delivery will not be made within the window of invest opportunity in the next two to three years.	Likelihood	3	2	2	2	Adele Taylor	July to September 2016: Digital East Herts steering group established and work underway to identify the overall Target Operating Model for the Council which will underpin the move to a digital council. Overall programme plan being developed including service reviews of processes to support the move to digital delivery. Consideration will be given to any short term investment required to deliver overall programme on a case by case basis.
10	Compliance with the Childrens Act 2004.	Whilst the Council's self-assessment obtained ratings of at least 'adequate' there is a commitment to improve and thereby ensure the safety of children.	Likelihood	4	2	4	1	Jonathan Geall	July to Sept 2016: A self-assessment of the Council's position regarding tackling Child Sexual Exploitation has been completed and actions to further training and awareness raising have been identified. These will be enacted during the remainder of 2016/17. The Council's Safeguarding Policy has been revised and is being consulted on internally until mid-October before being adopted.
11	Safeguarding adults.	Maintain and develop interagency relationships, Council policy and training.	Discontinuos de la continuo della continuo della continuo de la continuo della co	3	2	3	1	Jonathan Geall	July to Sept 2016: The Council's Safeguarding Policy has been revised and is being consulted on internally until mid-October before being adopted. A further series of PREVENT awareness sessions is being carried out in September to November 2016.
12	Encouragement of economic vitality cross the District.	Risk that opportunities to develop and improve Bishop's Stortford and Hertford town centres are not maximised through the Old River Lane Planning Framework and Hertford Urban Design Study. Also ensure regular dialogue with business and organisations representative of business. Interventions to be proposed where appropriate e.g. business improvement district opportunities.	Dikelihood	4	2	4	1		July to September 2016: The economic development service is being restructured to focus more upon business engagement. A new model will be implemented from January 2017 to help build stronger relations with the business community. Risk that HUDS funding does not come forward.

		Extreme weather - Either unable to resource or prioritise emergency planning response and other mitigation measures.	Frequency of events likely to increase. Emergency planning response could be compromised. Impact on east/west travel in District and on infrastructure, especially transportation. Lack of resource for mitigation activity e.g. land drainage function. Impact on Council properties, particularly sites on flood plains.	Impact	Likelihood	3	3	2	3	Jonathan Geall	July to September 2016: Emergency Planning training undertaken by Leadership Team. Duty rota now in place. Staff and volunteer contact data placed on secure page of intranet to improve resilience. (Website hosted externally). (Business Continuity Plan and key officer contact
1		Devolution - fail to engage and influence partners to engage leading to missed opportunities.	Hertfordshire not seen as a 'player' nationally and regionally. Unable to be proactive and engage early on in this agenda. Missed opportunities to maximise benefit.	Impact	Likelihood	2	3	2	3	Liz Watts	data to be added October 2016). July to September 2016: Since June 2016 a cross-county strategy group has been established to consider the five agreed themes and opportunities for deeper collaboration (potentially with some limited devolution 'asks' at some point in the future). The new Conservative leadership has still not given clear guidance about the future of devolution in two tier areas.
1	15	Referendum vote to leave EU.	Further budget reductions likely. Potential impact on the economy, particularly employment and the housing market. Loss of EU funding for local schemes. Legislative changes.	Impact	Likelihood	3	3	3	2	Ben Wood	July to September 2016: Watching brief being kept due to uncertainty around timing and impact of Brexit. EU funded projects which are approved before the Autumn Statement have been financially guaranteed by the Treasury and the team have worked hard to get as many projects approved as possible. RDPE funding is secured for the life of the project.

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Agenda Item 14

EAST HERTS COUNCIL

AUDIT AND GOVERNANCE COMMITTEE - 23 NOVEMBER 2016

REPORT BY HEAD OF STRATEGIC FINANCE AND PROPERTY

AUDIT AND GOVERNANCE COMMITTEE WORK PROGRAMME 2016/17

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

 This report provides the Audit and Governance Committee work programme for the 2016/17 civic year for consideration and approval.

RECOMMENDATION FOR AUDIT AND GOVERNANCE COMMITTEE: That:

- (A) the revised work programme for the Audit and Governance Committee be approved.
- 1.0 Background
- 1.1 The revised work programme for the Audit and Governance Committee was approved by the Audit and Governance Committee on 15 June 2016.
- 2.0 Report
- 2.1 The revised Audit and Governance Committee work programme for the 2016/2017 civic year is given at **Essential Reference Paper 'B'**.
- 2.2 The following amendments have been made:
 - Training items have been included on the following topics:
 - Business Continuity Plan update
 - o Pension Fund
 - o Fraud

3.0 <u>Implications/Consultations</u>

Information on any corporate issues and consultation associated with this report can be found within **Essential Reference Paper** 'A'.

Background Papers

Audit and Governance Committee Work Programme 2016/17 Audit and Governance Committee 21 September 2016.

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ESSENTIAL REFERENCE PAPER 'A'

IMPLICATIONS/CONSULTATIONS

Contribution to the Council's Corporate Priorities/ Objectives	Priority 2- Enhance the quality of people's lives.
Consultation:	External & Internal Audit have been consulted during the compilation of the Work Programme. No public consultations were required during the preparation of this report.
Legal:	There are no additional legal implications to those already contained in this report.
Financial:	There are no additional financial implications to those already contained in this report.
Human Resource:	There are no additional human resources implications to those already contained in this report.
Risk Management:	There are no additional risk management implications to those already contained in this report.
Health and wellbeing – issues and impacts:	There are no additional health and wellbeing implications to those already contained in this report.



ESSENTIAL REFERENCE PAPER 'B'

Audit and Governance Committee Work Programme 2016/17 Civic Year

Committee Date	Agenda Items
15 June 2016	 Draft Statement of Accounts 2015-2016. Shared Internal Audit Service Annual Assurance Statement and Annual Report 2015/16. Shared Internal Audit Service- Audit Plan Update Report. Update on Implementation of Annual Governance Statement Action Plan. Draft 2015/16 Annual Governance Statement. Annual Review of Data Quality Strategy. Risk Management monitoring report 1 January 2016 to 31 March 2016. Committee Work Programme.
21 September 2016	 Training item- Statement of Accounts External Audit - Audit Results Report. Statement of Accounts 2015/16. 2015/16 Annual Governance Statement. Treasury Management Strategy – 2015/16 Outturn Annual Shared Internal Audit Service Board Report 2015/16. Shared Internal Audit Service- Audit Plan Update Report. Shared Anti-Fraud Service (SAFS) – report on the Council's anti-fraud arrangements and work undertaken by SAFS (2015/2016). Risk Management monitoring report 1 April 2016 to 30 June 2016. Report from Head of Legal & Democratic Services re Complaints lodged under the Members' Code of Conduct. Committee Work Programme.
23 November 2016	 Training item – Business Continuity Plan update External Audit - 2015/16 Annual Audit Letter. Council response to 2015/16 Annual Audit Letter. External Audit - Planned Audit Fees for 2016/17. Treasury Management Strategy- 2016/17 Midyear Review. Update on Implementation of Annual Governance

ESSENTIAL REFERENCE PAPER 'B'

Audit and Governance Committee Work Programme 2016/17 Civic Year

	Statement Action Plan.
	Risk Management monitoring report 1 July 2016
	to 30 September 2016.
	Report from Head of Legal & Democratic Services
	re Complaints lodged under the Members' Code
	of Conduct.
	Committee Work Programme.
25 January	Training item - Fraud
2017	External Audit- Grants Certification Report
	2015/16.
	Treasury Management Strategy Statement
	2017/18.
	Shared Internal Audit Service- Audit Plan Update
	Report.
	Update on Implementation of Annual Governance
	Statement Action Plan.
	Report from Head of Legal & Democratic Services
	re Complaints lodged under the Members' Code
	of Conduct.
	Committee Work Programme.
22 March	Training item – Pension Fund
2017	External Audit- Audit Plan.
	Shared Internal Audit Service- Audit Plan Update
	Report.
	Shared Anti-Fraud Service (SAFS)- report on the
	Council's anti-fraud arrangements and work
	undertaken by SAFS (2016/2017).
	 Internal Audit Plan 2017/18.
	 Update on Implementation of Annual Governance
	Statement Action Plan.
	Risk Management Strategy.
	 Risk Management monitoring report 1 October
	2016 to 31 December 2016.
	 Annual Performance Framework update (or June?)
	,
	Report from Head of Legal & Democratic Services re Complaints lodged under the Members' Code
	re Complaints lodged under the Members' Code of Conduct.
	Committee Work Programme 2017/18 Civic Year.